

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Audited Statement of Cash Receipts and Disbursements
(Cash Basis)

June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Secretary of the
Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Report on the Financial Statement

We have audited the accompanying statement of cash receipts and disbursements of the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation (DCR) for the year ended June 30, 2019, and the related notes to the statement of cash receipts and disbursements.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial 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 financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statement referred to above presents fairly in all material respects, the cash receipts and disbursements of the DCR for the year ended June 30, 2019 in accordance with the cash basis of accounting described in Note 1.

Emphasis of Matters

Financial Deterioration of the Commonwealth of Puerto Rico (the Commonwealth)

As discussed in Note 2 to the basic financial statement, the DCR is part of the Commonwealth. Since June 30, 2015, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the DCR depends completely on appropriations from the Commonwealth, the financial condition and liquidity of the DCR could be similarly affected.

Hurricane María

On September 20, 2017, Hurricane Maria impacted Puerto Rico causing widespread infrastructure and other property damage, and the complete collapse of the electrical grid across the island. Damages caused by Hurricane Maria were covered by insurance and a federal assisted program.

Earthquakes

As discussed in Note 5, during the period from December 2019 through February 2020, Puerto Rico experienced a series of earthquakes and tremors which caused serious infrastructure damages to public and private property mainly on the southwestern part of the island. The damages caused were covered by insurance and a federal assisted program.

COVID-19

As discussed in Note 5, in March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic which is currently affecting the world's economy and financial markets. Should these conditions continue for an extended period of time or additional restrictions imposed by governments, the impact on the operations of the DCR could have a significant adverse effect in the DCR's statement of cash receipts and cash disbursements.

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Other Matters

Basis of Accounting

We draw attention to Note 1 to the financial statement, which describes the basis of accounting. The financial statement has been prepared on the cash receipts and disbursements 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 5 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the statement of cash receipts and disbursements of the DCR. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Uniform Guidance, Audit of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the cash receipts and disbursements activities.

The schedule of expenditures of federal awards is the responsibility of DCR's management and was derived from and relate directly to the underlying accounting and other records used to prepare the schedule of cash receipts and disbursements activities. Such information has been subjected to the auditing procedures applied in the audit of the schedule of cash receipts and disbursements activities and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the schedule of cash receipts and disbursements activities or to the schedule of cash receipts and disbursements 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 statement of cash receipts and disbursements activities as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2020, on our consideration of the DCR internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering DCR's internal control over financial reporting and compliance.



FPV & Galindez

San Juan, Puerto Rico
August 18, 2020
License No. LLC-322
Expires December 1, 2020

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Management's Discussion and Analysis

Year Ended June 30, 2019

Our discussion and analysis of the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation (DCR) financial performance provide an overview of the DCR's financial activities for the fiscal year ended on June 30, 2019. This report includes the cash received and cash paid as result of the operating activities of the DCR including both funds appropriated by the Government of Puerto Rico and federal financial assistance program granted by the U.S. Governmental agencies (USGA). Please read it along with the financial statement, which begin on page 6.

Overview of the Audited Financial Statement

The DCR's Financial Statement include a statement of cash receipts and disbursements and the notes to the audited financial statement. Below, you will find a brief explanation of the statement and notes.

- The Statement of Cash Receipts and Disbursements reports information about the DCR's General Operational Fund, Federal Fund and Special Fund; and includes all receipts and disbursements resulting from cash transactions.
- The Notes to the Financial Statement are an integral part of the statement of cash receipts and disbursements and provided explanation and detail regarding the information reported in the statement.

Financial Highlights

The statement of cash receipts and disbursements for the fiscal year ended on June 30, 2019 is presented on a cash basis of accounting; which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP).

Statement of Cash Receipts and Disbursements

The statement of cash receipts and disbursements reflects an excess of receipts over disbursements of approximately \$60.2 million. In essence, the excess is related with funds received through assignments that have not been disbursed yet at the end of the year.

The main expenses are payroll and fringe benefits by approximately \$220.7 million.

Request for Information

This financial report is designed to provide the readers with a general overview of the DCR's finances and to show the DCR's accountability for the monies it received. If you have any questions or need additional financial information, contact the DCR Administration Area by mail to the P.O. Box 71308, San Juan, Puerto Rico 00936, by phone to the (787) 273-6464, or by e-mail to mlleon@dcr.pr.gov.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Statement of Cash Receipts and Disbursements
(Cash Basis)
Governmental Fund

Year Ended June 30, 2019

	<u>General and Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Receipts:			
Legislative appropriations	\$ 326,923,700	\$ -	\$ 326,923,700
Special funds:			
Special funds, other	52,443,270	-	52,443,270
Federal financial assistance	<u>-</u>	<u>1,945,426</u>	<u>1,945,426</u>
 Total receipts	 <u>379,366,970</u>	 <u>1,945,426</u>	 <u>381,312,396</u>
 Disbursements:			
Payroll and fringe benefits	220,711,148	337	220,711,485
Facilities and public services	34,336,441	-	34,336,441
Purchase services	43,286,523	123,602	43,410,125
Transportation services	636,340	-	636,340
Professional services	1,953,283	613,661	2,566,944
Material and supplies	2,778,253	414,591	3,192,844
Equipment	468,864	129,142	598,006
Global assignment	15,053,655	-	15,053,655
Other	<u>628,688</u>	<u>-</u>	<u>628,688</u>
 Total disbursements	 <u>319,853,195</u>	 <u>1,281,333</u>	 <u>321,134,528</u>
 Excess of receipts over disbursements	 <u>\$ 59,513,775</u>	 <u>\$ 664,093</u>	 <u>\$ 60,177,868</u>

See accompanying independent auditors' report
and notes to financial statement

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement

Year Ended June 30, 2019

Note 1 - Organization and summary of significant accounting policies

Organization

The Commonwealth of Puerto Rico's Department of Corrections and Rehabilitation (DCR) was reorganized by the Reorganization Plan dated November 21, 2011 (the Reorganization Plan). This Plan emerges from the Law No. 182 of 2009 known as "Ley de Reorganización y Modernización de la Rama Ejecutiva del Gobierno de Puerto Rico de 2009", which unified the former the Administration of Correction created under the Law No. 116 of July 22, 1974, as amended, and the Juvenile Institutions Administration created under Law No. 154 of August 5, 1988, as amended. Both laws were derogated by the Reorganization Plan.

The Reorganization Plan creates and integrates a security system and correctional administration where the functions and duties are harmonized as a facilitator process to the imposition of penalties and security rules and the custody of the citizens who have committed crimes or offenses and to establish a process of moral and social rehabilitation of the correctional population in order to promote their reintegration into society. The DCR is responsible of implementing the public policy about the correctional system and rehabilitation of adults and minors delinquents. The DCR also has the custody of all offenders and transgressors of the criminal justice system.

On September 6, 2014 was approved the Law No. 151-2014 to amend the Reorganization Plan of November 21, 2011. This Law derogated the Law No. 177-1995 formerly known as "Ley de la Oficina de Servicios con Antelación al Juicio" and the Law No. 47-1991 formerly known as "Ley de Corporación de Empresas de Adiestramiento y Trabajo" and integrated those agencies as programs of the DCR. The purpose of the integration is to improve the efficiency of the Commonwealth of Puerto Rico (the Commonwealth), maximizing its resources and eliminating the duplicity of functions.

The activities of the DCR are divided in the following programs:

- Management and support – This program covers management of the Agency through a Secretary, Subsecretary, Assistants and Assistants Secretaries. It provides advisory services and support through the Legal Affairs Office, Community Relations, Budget and Finance, Personnel, Administration and Management, Administrative Services Area, Administrative Investigations, Administrative Remedy for Prisons Program, Federal Affairs Office and Regional Offices.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 1 - Organization and summary of significant accounting policies – (continued)

Organization – (continued)

- Penal Institutions and Services to Confineds and Young Offenders – The penal institutions program is responsible of accepting and offering services to citizens that enter a penal institution as inmates, who cannot provide the bail imposed by court, or sentenced to prison terms. The DCR guarantees prisoners their constitutional rights, principally the right to live, access to the courts and legal representation and receive a fair human treatment.

Also, this program establishes and develop programs services for the inmate correctional population to propitiate and motivate a change process in their behavior to obtain their rehabilitation and be reinstated to the free community, so they can develop as useful and responsible citizens. Services offered under this program include counseling, recreation, and spiritual guidance in coordination with the Puerto Rico Mental Health Services Administration and Against Adiction, services for mental health evaluation and treatment of prisoner addicted to drug and alcohol.

- Administration and Supervision of Correctional Complex in Bayamón – This complex is part of the management scheme that was developed to decentralize the direct services to the confined and minors and to offer better conditions of life, taking into account as a priority the conditions of the penal institutions. Under this concept are grouped programs and services to the correctional population to encourage and motivate their rehabilitation. In addition, under the Health Correctional Program, the DCR provide services for physical health, evaluation and treatment to the confined addicted to drugs and alcohol. Also, they have the responsibility to maintain the safety of the inmates, as well as the employees and society.
- Administration and Supervision of Correctional Complex in Ponce – This complex is responsible for the rehabilitation of the inmates and to offer better conditions in the imprisonment. They provide services to the correctional population that encourage and motivate their rehabilitation. Also, they have the responsibility to maintain the safety. This was created to comply with a court stipulation in the Carlos Morales Feliciano Civil Lawsuit.
- Psychosocial Evaluation Program – This program offers services of evaluation and treatment to the correctional population members. The purpose of this program is to increase the possibility of social adjustment and adaptation during the stay in the correctional system and foster personal development and growth.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 1 - Organization and summary of significant accounting policies – (continued)

Organization – (continued)

- Investigation and Supervision of Confineds and Young Offenders – The program respond to the following services: Intersate Pact that allows the interchange of released population between Puerto Rico, United States and U.S. Virgin Islands. The Drug Court project that have the responsibility to investigate and monitor the cases referred by the Court. The probation and parole to investigate and monitor the cases referred to the granting of those privileges, among other services. Also, the young offenders have an intensive supervision in the community, provisional exit and pass issued.
- Facilities Management Office (FMO) – The Program offers guides to comply with standards for hygiene and life conditions to the inmates at the institutions.

Summary of Significant Accounting Policies

Basis of Accounting

The DCR's policy is to prepare its statement of cash receipts and disbursements on the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statements of cash receipts and disbursements are not intended to present the DCR's financial position and results of operations, in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

The accounts of the DCR are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The DCR's funds are, as required by law, under the custody and control of the Secretary of the Treasury of the Commonwealth of Puerto Rico and are also accounted for in the Central Government Accounting System. The DCR prepares its statement of receipts and disbursements on the cash basis of accounting.

Commonwealth of Puerto Rico
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Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 1 - Organization and summary of significant accounting policies – (continued)

Basis of Presentation – (continued)

The DCR reports the General Fund. This fund is the primary operating fund of the DCR. It is used to account for all financial transactions, except those required to be accounted for in another fund.

Encumbrances

Encumbrances represent fund balance legally segregated for future disbursements under purchase orders, contracts and other commitments. These committed amounts generally will become disbursements in future periods as the goods or services are paid. At June 30, 2019, encumbrances amounted to approximately \$12 million.

Use of Estimates

The preparation of financial statements in conformity with other comprehensive basis of accounting requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vacation and sick leave

The vacation and sick leave policy of DCR provides for the accumulation of fifteen (15) days of vacation and eighteen (18) days of sick leave annually, which is in accordance with the Law No. 26 dated April 29, 2017. Also, for any employee hired after February 4, 2017, the accumulation is reduced to fifteen (15) days of vacation and twelve (12) days of sick leave annually.

As per Law No. 26 dated April 29, 2017, the employees of DCR can accumulate up to sixty (60) days of vacation at the end of the calendar year. Payment of the excess of sixty (60) days of vacation cannot be completed and the excess of sixty (60) days of vacation would be eliminated at the end of each calendar year.

As per Law No. 26 dated April 29, 2017, the employees of DCR can accumulate up to ninety (90) days of sick leave at the end of the calendar year. However, as per this law, payment of the excess of ninety (90) days of sick leave would be eliminated at the end of each calendar year.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 2 - Going Concern Consideration

As part of its normal operating activities, the DCR is completely dependent on appropriations from the Commonwealth. Since June 30, 2015, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due after amassing more than \$70 billion in debt and over \$50 billion in unfunded benefit pension benefits.

As a result of this critical situation, on June 30, 2016, the Congress of the United States of America enacted the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), under which the Financial Oversight and Management Board for Puerto Rico (the Board) was created. The purpose of the Board is to provide a method for a covered territory to achieve fiscal responsibility and access to capital markets. Under PROMESA, the Board is authorized to restructure Puerto Rico's debt.

On March 2017, the Fiscal Oversight and Management Board (the Board) certified the Commonwealth's Fiscal Plan, which has suffered various updates since, mainly as a result of the passage of Hurricane María. The last update was issued on May 2019 as the Fiscal Plan for Puerto Rico – Restoring Growth and Prosperity in accordance to section 201(e)(2) of PROMESA. The Fiscal Plan provides for estimates of revenues and expenditures based on applicable laws and specific bills to be enacted in the future in order to comply with projections, ensure funding of essential public services, provide adequate funding for public pension systems, provide a sustainable debt burden, improve fiscal governance, accountability and internal controls, among others. At the same time, the Board engaged in negotiations with creditor groups which would further lead to the initial Plan of Adjustment which main objective is the restructuring of debt under Title III of PROMESA.

On February 2020, the Oversight Board certified the submission of the amended joint Plan of Adjustment and the Disclosure Statement for the Debtors pursuant to PROMESA section 104(j). However, even though the Court approved the Disclosure Statement, such approval does not constitute a determination by the Court as to the fairness and merits of the Plan. The Court will consider confirmation of the Plan at the confirmation hearing scheduled for October 2020.

Finally, even though the abovementioned events seemed the appropriate economic course of action, the financial support that the Commonwealth has provided to the DCR may be affected in the near future.

Commonwealth of Puerto Rico
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Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 3 - Commitments and contingencies

Operating Leases

The DCR has several operating lease agreements covering some of the DCR's buildings and facilities, which generally have terms of one year or less, and are automatically renewed based on availability of funds. Rent expense for the administrative offices for the year ended June 30, 2019 amounted to approximately \$4.5 million. Future operating leases commitments are scheduled as follows:

<u>June 30,</u>	<u>Amount</u>
2020	\$ 4,818,000
2021	4,818,000
2022	4,818,000
2023	<u>4,818,000</u>
Total	<u>\$ 19,272,000</u>

Litigations and Claims

The DCR is a defendant in lawsuits arising in the normal course of operations. According to the laws of the Commonwealth of Puerto Rico, the DCR is fully represented by the Puerto Department of Justice in defense of all legal cases against the DCR. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

Federal Financial Assistance Programs

The DCR participates in and administers federal grant programs, which are governed by various rules and regulations of the grantor agencies. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. As such the DCR is required to comply with the audit requirements established by the Uniform Guidance. If expenditures are disallowed due to non-compliance with grant program regulations, the DCR may be required to reimburse the grantors for such expenditures.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan

Retirement System

The Employees' Retirement System of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 Program) and a defined contribution hybrid program.

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the DCR hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, 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.

Members who have attained 55 years of age and have 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, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 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 is eligible, is limited to a minimum of \$500 per month and a maximum of 75% of the average compensation, as defined.

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

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the Defined Benefit Program.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

Defined Benefit Program – (continued)

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date 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.

On September 24, 1999, the Legislature enacted Act No. 305 which amended Act No. 447 to establish a new retirement program (System 2000 Program). In addition, on April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 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 (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 at 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.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the System 2000 Program. Investment income is credited to the participant's account semiannually.

Under the System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

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Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

System 2000 Program – (continued)

Corresponding employers' contributions will be used by the Retirement System 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 this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide 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 will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Defined Contribution 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 System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. 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 Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program.

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Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Defined Contribution 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 will be gradually increased from age 58 to age 61.
3. The retirement age for the active System 2000 Program participants will be 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 will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
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 will be contributed to the Retirement System.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be 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 will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2014, the DCR was required to contribute 12.275% of each participant's gross salary under the different benefit structures. The Retirement System will use 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 shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

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 "Pay as you Go (PayGo)" mechanism for all of the Commonwealth's Retirement Systems. With the start of the 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 assignment for fiscal year 2018 under Joint Resolution 188, which among other things, orders the Retirement System to liquidate its assets and pass the net proceeds to the Treasury Department.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

New Plan for Defined Contribution

On August 2017, the Commonwealth the Act to Guarantee the Payment to our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act 106), which reformed the Commonwealth Retirement System so that their active participants would deposit their individual contributions in a new Defined Contribution Plan that will be administered by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

Act No. 106, among other things, amended Act No. 12 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2018. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contribution program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contribution program will retain their benefits as stated under Act 91 of March 29, 2003.

Act No. 106 also ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017. As mentioned in Note 2, on May 2019, the Board engaged in negotiations with creditors (which include retirees and bondholders) related to the debt restructuring plan under Title III of PROMESA. Such Plan aims to reduce fiscal debt to sustainable levels without significantly impacting retiree's benefits.

For the year ended June 30, 2019, total covered payroll for employees was approximately \$221 million. Covered payroll refers to all compensation paid by the DCR to employees covered by the Retirement System on which contributions to the pension are based.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2019

Note 4 - Employees' retirement plan – (continued)

Defined Contribution Hybrid Program – (continued)

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2016, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

Note 5 - Subsequent events

Subsequent events were evaluated through March 20, 2020, the date the financial statements were available to be issued. Except as discussed in Note 2 and in the next paragraphs, no significant events that should have been recorded or disclosed in the financial statements were noted.

During the period from December 2019 through February 2020, Puerto Rico experienced a series of earthquakes and tremors which caused severe infrastructure damages to public and private property mostly on the southwestern part of the island. On January 16, 2020, the island was declared a major disaster area which activated the federal emergency response by making federal funds available for recovery from the effects of the disaster.

In March 2020, the World Health Organization declared the coronavirus disease COVID-19 a global pandemic. This highly contagious disease has spread across the world and is currently affecting the world's economy and financial markets, which may result in a significant economic downturn. In addition, state and international governments have imposed restrictions on non-essential services and manufacturing, including enforced business lockdowns and curfews, which may result in disruptions in the production and distribution of certain supplies. Furthermore, governments continue to impose additional restrictions on international travel and border control, as well as other social and business activities involving large numbers of individuals and/or participants.

The abovementioned conditions may negatively affect the DCR normal operations, however, the related financial statement impact cannot be reasonably estimated at this time.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Agency	Federal Program	CFDA Number	Expenditures			Pass-through to Sub-recipients
			From Pass- Through Awards	From Direct Awards	Total	
U.S. Department of Justice						
Direct Program						
	Residential Substance Abuse Treatment for State Prisoner	16.593	\$ -	\$ 93,639	\$ 93,639	\$ -
	State Criminal Alien Assistant Program	16.606	-	111,838	111,838	-
	Support for Adam Walsh Act Implementation Grant	16.750	-	55,343	55,343	-
Passed through programs from Department of Justice of the Government of Puerto Rico						
	Juvenile Accountability Block Grants	16.523	91,928	-	91,928	-
	Crime Victim Assistance	16.575	313,529	-	313,529	-
	Edward Byrne Memorial Justice Assistance Grant	16.738	51,750	-	51,750	-
Passed through programs from The Procurement Office for Women						
	Violence against Women Formula Grants	16.588	53,940	-	53,940	-
Passed through programs from The Office of the Commissioner of Municipal Affairs						
	Edward Byrne Memorial Justice Assistance Grant	16.523	2,212	-	2,212	-
Total U.S. Department of Justice			513,359	260,820	774,179	-

(Continued)

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Expenditures of Federal Awards – (Continued)

Year Ended June 30, 2019

Federal Agency	Federal Program	CFDA Number	Expenditures			Pass-through to Sub-recipients
			From Pass- Through Awards	From Direct Awards	Total	
U.S. Institute of Museum and Library Services						
	Passed through programs from Department of Education of the Government of Puerto Rico					
	State Library Program	45.310	2,137	-	2,137	-
U.S. Department of Education						
	Passed through programs from Department of Education of the Government of Puerto Rico					
	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	(3,464)	-	(3,464)	-
U.S. Department of Homeland Security						
	Passed through programs from The Central Office of Recovery, Reconstruction and Resiliency					
	Disaster Grants- Public Assistance	97.036	-	508,482	508,482	-
Total Expenditures of Federal Financial Assistance Awards			\$ 512,031	\$ 769,302	\$ 1,281,333	\$ -

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Department of Corrections and Rehabilitation (the DCR), under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operation of the DCR, it is not intended to and does not present the statement of cash receipts and disbursements of the DCR.

Note 2 - Summary of significant accounting policies

The Schedule is prepared from the DCR's accounting records and is not intended to present its financial position or the results of its operations. The Schedule is presented in accordance with the cash receipts and disbursement basis of accounting, under which revenues are recorded when received and expenditures are recorded when paid. The DCR has elected not to use the 10-percent of minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Catalog of Federal Domestic Assistant (CFDA) Number

The CFDA number included in this Schedule is determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

Note 4 - Relationship to the Financial Statement

Expenditures included in the Schedule amounting to \$1,281,333 agree with the amounts included in the accompanying statement of cash receipts and disbursements for purpose of the federal financial assistance.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Secretary of the Commonwealth
Puerto Rico Department of
Corrections and Rehabilitation

We have audited, in accordance with the 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 financial statement of the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation which comprise the statement of cash revenues and disbursements and the related notes to the financial statement, for the year ended June 30, 2019 and have issued our report thereon dated August 18, 2020.

Our report on the DCR's basic financial statements included an emphasis of matter paragraph indicating that the DCR has evaluated the possible effects of the budgetary constraints and liquidity risk being faced by the Commonwealth of Puerto Rico on its basic financial statements, and has concluded that, as of June 30, 2019, the DCR will continue to operate as a going concern for a period not less than twelve months after such date.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Puerto Rico Department of Corrections and Rehabilitation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Puerto Rico Department of Corrections and Rehabilitation's internal control. Accordingly, we do not express an opinion on the effectiveness of the the of Puerto Rico Department of Corrections and Rehabilitation'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Secretary of the Commonwealth
 Puerto Rico Department of
 Corrections and Rehabilitation
 Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Puerto Rico Department of Corrections and Rehabilitation’s financial 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 financial 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 testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



FPV Galindez

San Juan, Puerto Rico
 August 18, 2020
 License No. LLC-322
 Expires December 1, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Secretary of the Commonwealth
Puerto Rico Department of
Corrections and Rehabilitation

Report on Compliance for the Major Federal Program

We have audited the Puerto Rico Department of Corrections and Rehabilitation's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Puerto Rico Department of Corrections and Rehabilitation's major federal program for the year ended June 30, 2019. The Puerto Rico Department of Corrections and Rehabilitation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Puerto Rico Department of Corrections and Rehabilitation's major federal program based on our audit of the types of compliance requirements referred to above. 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 auditing requirements of *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements For federal Awards (Uniform Guidance)*, Local Governments, and Non-Profit Organizations. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Puerto Rico Department of Corrections and Rehabilitation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal programs. However, our audit does not provide a legal determination of the Puerto Rico Department of Corrections and Rehabilitation's compliance.

To the Secretary of the Commonwealth
Puerto Rico Department of
Corrections and Rehabilitation
Page 2

Opinion on Each Major Federal Program

In our opinion, the Puerto Rico Department of Corrections and Rehabilitation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Puerto Rico Department of Corrections and Rehabilitation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Puerto Rico Department of Corrections and Rehabilitation's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Puerto Rico Department of Corrections and Rehabilitation's internal control over compliance.

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 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. 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.

To the Secretary of the Commonwealth
 Puerto Rico Department of
 Corrections and Rehabilitation
 Page 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



FPV Galindez

San Juan, Puerto Rico
 August 18, 2020
 License No. LLC-322
 Expires December 1, 2020

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Findings and Questioned Costs – (continued)

Year ended June 30, 2019

Part II - Financial Statement Findings

None

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Findings and Questioned Costs – (continued)

Year ended June 30, 2019

Part III – Federal Award Findings and Questioned Costs

None

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Summary Schedule of Prior Audit Year Findings

Year Ended June 30, 2019

None