

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Audited Statement of Cash Receipts and Disbursements
(Cash Basis)

June 30, 2021

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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, 2021, 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, 2021 in accordance with the cash basis of accounting described in Note 1.

Emphasis of Matters

PROMESA

As discussed in Note 1 to the basic financial statement, the DCR is part of the Commonwealth of Puerto Rico (the Commonwealth). On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 124-187 (PROMESA or the Act) was enacted into law. This Act established the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. On May 13, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA, similar to bankruptcy proceedings, on behalf of the Commonwealth. On January 18, 2022, the Title III Court entered an order approving the Commonwealth's Eight Amended Plan of Adjustment (the Plan). The Plan became effective in accordance with its terms on March 15, 2022, and the Commonwealth emerged from Title III of PROMESA.

COVID-19

As discussed in Note 4, 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 imposed restrictions on non-essential services and manufacturing, including enforced business lockdowns and curfews, resulting in disruptions in the production and distribution of certain supplies. Even as imposed restrictions have been gradually eased as of the date these financial statements were about to be issued, its potential effect on future periods cannot be reasonably estimated at this time.

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 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.

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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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget and by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), 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 relates 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 May 27, 2022 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.



Galíndez LLC

San Juan, Puerto Rico
May 27, 2022
License No. LLC-322
Expires December 1, 2023

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Management's Discussion and Analysis

Year Ended June 30, 2021

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, 2021. 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 begins on page 6.

Overview of the Audited Financial Statement

The DCR's Financial Statement includes a statement of cash receipts and disbursements and the notes to the audited financial statement. 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 provides explanations and details regarding the information reported in the statement of cash receipts and cash disbursements.

Financial Highlights

The statement of cash receipts and disbursements for the fiscal year ended on June 30, 2021 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 \$41.6 million, an increase of approximately \$33.3 million from FY 2020. In essence, the excess is mostly related to funds received through assignments that had not yet been disbursed at the end of the year. The total approved budget for fiscal year 2021 amounted to \$404 million.

The main expenses are payroll and fringe benefits amounting to approximately \$196.5 million for the year ended June 30, 2021. The most significant impact was a decrease of approximately \$39 million in payroll and fringe benefits (\$196.5 million in 2021 versus \$235.5 million in 2020) mostly composed of COVID-19 incentives of \$ 16.8 and overtime increase of \$17.1 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 mleon@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, 2021

	General and Special Funds	Federal Funds	Total
Receipts:			
Legislative appropriations	\$ 356,400,000	\$ -	\$ 356,400,000
Special funds:			
Special funds, other	29,228,026	-	29,228,026
Federal financial assistance	-	10,129,646	10,129,646
 Total receipts	 385,628,026	 10,129,646	 395,757,672
 Disbursements:			
Payroll and fringe benefits	196,498,895	12,242	196,511,137
Facilities and public services	40,403,738	-	40,403,738
Purchased services	67,258,273	7,643,718	74,901,991
Transportation services	1,191,176	490	1,191,666
Professional services	2,180,756	698,395	2,879,151
Material and supplies	7,974,641	4,915,892	12,890,533
Equipment	2,942,207	706,915	3,649,122
Federal funds matching	24,563	-	24,563
Capital expenditures	14,726,232	-	14,726,232
Other	6,706,181	294,738	7,000,919
 Total disbursements	 339,906,662	 14,272,390	 354,179,052
 Excess of receipts over disbursements	 \$ 45,721,364	 \$ (4,142,744)	 \$ 41,578,620

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, 2021

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 Act 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 Administration of Correction created under Act No. 116 of July 22, 1974, as amended, and the Juvenile Institutions Administration created under Act 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 Act No. 151-2014 to amend the Reorganization Plan of November 21, 2011. This Act derogated Act No. 177-1995 formerly known as "Ley de la Oficina de Servicios con Antelación al Juicio" and Act 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 DCR 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
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Notes to Financial Statement – (continued)

Year Ended June 30, 2021

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
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Notes to Financial Statement – (continued)

Year Ended June 30, 2021

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.

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Notes to Financial Statement – (continued)

Year Ended June 30, 2021

Note 1 - Organization and Summary of Significant Accounting Policies – (continued)

Basis of Presentation

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, 2021, encumbrances amounted to approximately \$23 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 Act 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 Act 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 accumulated vacation in excess of sixty (60) days are not allowed, therefore, any excess over the sixty (60) days allowable would be eliminated at the end of each calendar year.

As per Act 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 accumulated sick days in excess of ninety (90) days are not allowed, therefore, any excess over the ninety (90) days allowed 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, 2021

Note 2 - Going Concern Considerations

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 of June 30, 2019, the date of the most recent audited financial statements, the Primary Government of the Commonwealth had a net deficit of approximately \$59.3 billion.

As a result of the abovementioned, on June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 124-187 (PROMESA or the Act) was enacted into law. This Act established the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) to oversee the finances of the Commonwealth and its efforts to achieve fiscal responsibility and obtain access to capital markets. On May 13, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA, similar to bankruptcy proceedings, on behalf of the Commonwealth. On January 18, 2022, the Title III Court entered an order approving the Commonwealth's Eight Amended Plan of Adjustment (the POA). The POA became effective in accordance with its terms on March 15, 2022, and the Commonwealth emerged from Title III of PROMESA.

The POA reduces the debt from approximately \$34 billion to approximately \$7 billion and, also reduces the maximum contractual debt from \$4.2 billion to approximately \$1.15 billion. In addition, the POA does not include a reduction in pensions, as was included in its earlier versions, but creates a Pension Trust to provide certainty to Pay-Go pension disbursements for accrued benefits on the defined benefit pension plans. This Pension Trust will receive, from the funds available in the PR Treasury TSA, \$1.376 billion to be transferred to participants accounts on defined contribution and hybrid plans such as System 2000, on the effective date of the POA.

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 paid for use of the administrative offices for the year ended June 30, 2021 amounted to approximately \$4.5 million.

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

Year Ended June 30, 2021

Note 3 - Commitments and Contingencies – (continued)

Future operating leases commitments are scheduled as follows:

<u>June 30,</u>	<u>Amount</u>
2022	4,818,000
2023	<u>4,818,000</u>
Total	<u>\$ 9,636,000</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.

Note 4 - Retirement Plan

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). However, on September 30, 2016, ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA for ERS in the United States District Court for the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases.

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

Year Ended June 30, 2021

Note 4 - Retirement Plan – (continued)

On June 27, 2017, the Commonwealth's Department of Treasury issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) system, in which ERS and the Commonwealth's other retirement systems stopped receiving contributions from employers or plan participants and are no longer managing contributions on behalf of participants. Since fiscal year 2018, employers' contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated. On August 23, 2017, the Governor signed into law the Act No. 106 of 2017, known as the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. 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 participating employers, including the Authority. The Commonwealth allocation percentages are based on the ratio of each participating entity's actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date. Approximately \$2 billion was allocated for these purposes in each of the Commonwealth's budgets for fiscal year 2019.

Act 106-2017, among other things, amended Act No. 447 with respect to the ERS's governance, funding, and benefits for active members of the actual program and new hired members. Under Act 106-2017, the ERS's Board of Trustees was eliminated, and a new retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems. Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017 and created a new defined contribution plan (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 the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government employees hired on and after July 1, 2017, will be enrolled in the New Defined Contributions Program. As of June 22, 2020, the accumulated balance on the accounts of the prior pension programs will be transferred to the individual member accounts in the New Defined Contribution Plan.

Act 106-2017 also ordered a suspension of the ERS' loan programs and ordered a merger of the administrative structures of the Commonwealth's retirement systems. At the Retirement Board's discretion, the administration of benefits under the new Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

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

Year Ended June 30, 2021

Note 4 - Retirement Plan – (continued)

Plan Description Prior to July 1, 2017

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

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January 1, 1952 for members hired up to March 31, 1990;
- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999;
- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2021

Note 4 - Retirement Plan – (continued)

Plan Description Prior to July 1, 2017 – (continued)

Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid 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. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Total Pension Liability and Actuarial Information

The total Pension Plan liability recorded by the Commonwealth, which includes the DCR but excludes blended component units and other agencies, as of June 30, 2020 (measurement date June 30, 2019) amounted to \$16.5 billion, representing its proportionate share of the total pension liability of the Pension Plan as of such date. The total pension liability as of June 30, 2020 (measurement date June 30, 2019) was determined by an actuarial valuation as of July 1, 2018, that was rolled forward to June 30, 2019 (measurement date).

Additional information on the ERS is provided on its standalone financial statements, 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 00940-2003.

Note 5 - Coronavirus Pandemic

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, resulting in a significant economic downturn. In addition, state and international governments imposed restrictions on non-essential services and manufacturing, including enforced business lockdowns and curfews, which resulted in disruptions in the production and distribution of certain supplies. Even as imposed restrictions have been gradually eased as of the date these financial statements were about to be issued, its potential effect on future periods cannot be reasonably estimated at this time.

Note 6 - Subsequent Events

Subsequent events were evaluated through May 27, 2022, the date the financial statements were available to be issued. Except as disclosed in Note 1, no significant events that should have been recorded or disclosed in the financial statements were noted.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal Agency / (Pass Through Agency)	Federal Program	Assistance Listing Number	Other Award 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		\$ -	\$ 93,618	\$ 93,618	\$ -
	State Criminal Alien Assistant Program	16.606		-	244,380	244,380	-
	Support for Adam Walsh Act Implementation Grant	16.750		-	43,512	43,512	-
	Passed through programs from Department of Justice of the Commonwealth of Puerto Rico						
	Coronavirus Emergency Supplemental Funding Program	16.034		287,024	-	287,024	-
	Juvenile Accountability Block Grants	16.523		22,536	-	22,536	-
	Crime Victim Assistance	16.575		410,185	-	410,185	-
	Edward Byrne Memorial Justice Assistance Grant	16.738		<u>39,306</u>	<u>-</u>	<u>39,306</u>	<u>-</u>
	Total U.S. Department of Justice			759,051	381,510	1,140,561	-
U.S. Department of Treasury	Passed through programs from the Puerto Rico Office of Management and Budget						
	Coronavirus Relief Fund	21.019		<u>9,416,750</u>	<u>-</u>	<u>9,416,750</u>	<u>-</u>
U.S. Department of Homeland Security	Passed through programs from the Central Office of Recovery, Reconstruction and Resiliency						
	Disaster Grants- Public Assistance	97.036		<u>3,715,079</u>	<u>-</u>	<u>3,715,079</u>	<u>-</u>
Total Expenditures of Federal Financial Assistance Awards				<u>\$13,890,880</u>	<u>\$ 381,510</u>	<u>\$ 14,272,390</u>	<u>\$ -</u>

See accompanying notes to the schedule of expenditures of federal awards.

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

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, 2021. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget and by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 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. Expenditures are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement

Note 3 - Assistance Listing Number (ALN)

The Assistance Listing Numbers included in this Schedule are determined based on the program name, review of grant contract information and the public description of federal assistance listing published by the U.S. Government in sam.gov.

Note 4 - Relationship to the Financial Statement

Expenditures included in the Schedule amounting to \$14,272,390 agree with the amounts included in the accompanying statement of cash receipts and disbursements for purposes of 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 of
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 receipts and disbursements and the related notes to the financial statement, for the year ended June 30, 2021 and have issued our report thereon dated May 27, 2022.

Our report on the DCR's basic financial statement 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, 2021, the DCR will continue to operate as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Commonwealth of 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth 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.

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

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth of 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.



Galíndez LLC

San Juan, Puerto Rico
May 20, 2022
License No. LLC-322
Expires December 1, 2023

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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 of
Puerto Rico Department of
Corrections and Rehabilitation

Report on Compliance for the Major Federal Program

We have audited the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation's compliance with the types of compliance requirements described in the OMB Compliance Supplement and its Addendum that could have a direct and material effect on the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation's major federal program for the year ended June 30, 2021. The Commonwealth of 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 Commonwealth of 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 Commonwealth of 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 Commonwealth of Puerto Rico Department of Corrections and Rehabilitation's compliance.

To the Secretary of the Commonwealth of
Puerto Rico Department of
Corrections and Rehabilitation
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Opinion on Each Major Federal Program

In our opinion, the Commonwealth of 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, 2021.

Report on Internal Control over Compliance

Management of the Commonwealth of 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 Commonwealth of 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 Commonwealth of 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.

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.

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

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.



Galíndez LLC

San Juan, Puerto Rico
May 27, 2022
License No. LLC-322
Expires December 1, 2023

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

Part I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness identified?	_____ yes	___ <u>x</u> ___ no
Significant deficiency identified that are not considered to be material weaknesses?	_____ yes	___ <u>x</u> ___ no
Noncompliance material to financial statements noted?	_____ yes	___ <u>x</u> ___ no

Federal Awards

Internal control over major programs:		
Material weakness identified?	_____ yes	___ <u>x</u> ___ no
Significant deficiency identified that are not considered to be material weaknesses?	_____ yes	___ <u>x</u> ___ no

Type of auditors’ report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR § 200.516?	_____ yes	___ <u>x</u> ___ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Award</u>
21.019	Coronavirus Relief Fund
97.036	Disaster Grants-Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	___ <u>x</u> ___ yes	_____ no
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Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Findings and Questioned Costs – (continued)

Year ended June 30, 2021

Part II – Financial Statement Findings

None

Part III – Federal Award Findings and Questioned Costs

None

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2021

None