

Commonwealth of Puerto Rico
Department of Correction and Rehabilitation

Audited Statement of Cash Receipts and Disbursements
(Cash Basis)

June 30, 2022

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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

Opinion

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, 2022, and the related notes to the statement of cash receipts and disbursements.

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, 2022 in accordance with the cash basis of accounting described in Note 1.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DCR's ability to continue as a going concern for one year after the date that the financial statement are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statement

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DCR's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DCR's ability to continue as a going concern for a reasonable period of time.

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

Emphasis of 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.

Other Matters

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 Supplementary 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.

To the Secretary of the
Commonwealth of Puerto Rico
Department of Correction and Rehabilitation
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023 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.



A handwritten signature in blue ink that reads "Galíndez LLC".

San Juan, Puerto Rico
March 24, 2023
License No. LLC-322
Expires December 1, 2023

Commonwealth of Puerto Rico
Department of Correction and Rehabilitation

Management's Discussion and Analysis

Year Ended June 30, 2022

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, 2022. This report includes the cash received and cash paid as result of the operating activities of the DCR including both funds appropriated by the Commonwealth 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, 2022 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 \$10.2 million, a decrease of approximately \$31.4 million from year ended June 30, 2021. 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 2022 amounted to \$387 million.

Payroll and fringe benefits, the most significant expense, amounted to \$224.7 million, an increase of \$28.2 million when compared to \$196.5 million for the year ended June 30, 2021, primarily due to \$20.4 million of premium pay incentives related to COVID-19.

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, 2022

	General and Special Funds	Federal Funds	Total
Receipts:			
Legislative appropriations	\$ 314,548,868	\$ -	\$ 314,548,868
Special funds:			
Special funds, other	22,608,183	-	22,608,183
Federal financial assistance	-	21,736,436	21,736,436
 Total receipts	 337,157,051	 21,736,436	 358,893,487
 Disbursements:			
Payroll and fringe benefits	204,290,986	20,384,384	224,675,370
Facilities and public services	38,912,556	-	38,912,556
Purchased services	57,873,818	1,061,296	58,935,114
Transportation services	911,440	-	911,440
Professional services	5,173,303	409,530	5,582,833
Material and supplies	3,955,994	92,733	4,048,727
Equipment	1,339,807	596,147	1,935,954
Federal funds matching	33,435	-	33,435
Capital expenditures	9,879,354	-	9,879,354
Other	3,368,396	417,614	3,786,010
 Total disbursements	 325,739,089	 22,961,704	 348,700,793
 Excess of receipts over disbursements	 \$ 11,417,962	 \$ (1,225,268)	 \$ 10,192,694

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, 2022

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
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2022

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, 2022

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
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2022

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, 2022, 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, 2022

Note 2 - Commitments and Contingencies

Operating Leases

The DCR maintains a lease agreement for the administrative offices located in San Juan expiring in November 2025, as well as several other 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, 2022 amounted to approximately \$4.5 million.

Future operating leases commitments are scheduled as follows:

<u>June 30,</u>	<u>Amount</u>
2023	\$ 3,605,534
2024	3,713,795
2025	3,825,377
2026	<u>1,613,520</u>
Total	<u>\$ 12,758,226</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, 2022

Note 3 - Pension Plan

On August 23, 2017, Act No. 106 was enacted, which is known as the “*Law to Guarantee Payment to our Pensioners*”. Under this Act, starting July 1, 2017, the General Fund, through the system of “pay-as-you-go” (PayGo), assumes the payments of the three Retirement Systems (Employees Retirement System [ERS] of the Government of the Commonwealth, the Teachers’ Retirement System and Judiciary Retirement System), because the retirement plan has depleted the assets set aside to pay benefits.

The Department will assume the proportional share of the pension benefits of the Department’s retirees. Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan. Such contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines.

However, Act No. 106 does not provide for employer contributions. Under the Pay-Go system, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable employer. The Pay-Go 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 the DCR’s payroll disbursements are made directly by the Treasury Department, the Pay-Go amounts are withheld therein. For the year ended June 30, 2022, the Department’s corresponding payment under the Pay-Go system amounted to approximately \$50.6 million.

Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution, and hybrid plans, as discussed below. Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account through the date of retirement.

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, 2022 (measurement date June 30, 2021) amounted to \$17.9 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, 2022 (measurement date June 30, 2021) was determined by an actuarial valuation as of July 1, 2020, that was rolled forward to June 30, 2021 (measurement date).

Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Notes to Financial Statement – (continued)

Year Ended June 30, 2022

Note 4 - Subsequent Events

Subsequent events were evaluated through March 24, 2023, the date the financial statements were available to be issued. 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, 2022

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		\$ -	\$ 69,215	\$ 69,215	\$ -
	State Criminal Alien Assistant Program	16.606		-	6,364	6,364	-
	Support for Adam Walsh Act Implementation Grant	16.750		-	16,212	16,212	-
	Passed through programs from Department of Justice of the Commonwealth of Puerto Rico						
	Coronavirus Emergency Supplemental Funding Program	16.034		581,821	-	581,821	-
	Juvenile Accountability Block Grants	16.523		-	-	-	-
	Crime Victim Assistance	16.575		326,468	-	326,468	-
	Edward Byrne Memorial Justice Assistance Grant	16.738		67,108	-	67,108	-
	Edward Byrne Memorial Competitive Grant Program	16.751		<u>18,692</u>	<u>-</u>	<u>18,692</u>	<u>-</u>
	Total U.S. Department of Justice			<u>994,089</u>	<u>91,791</u>	<u>1,085,880</u>	<u>-</u>
U.S. Department of Treasury							
	Passed through programs from the Puerto Rico Department of Treasury						
	Coronavirus Relief Fund	21.019		108,900	-	108,900	-
	Coronavirus State and Local Fiscal Recovery Funds	21.027		<u>20,368,268</u>	<u>-</u>	<u>20,368,268</u>	<u>-</u>
	Total U.S. Department of Treasury			<u>20,477,168</u>	<u>-</u>	<u>20,477,168</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>1,398,656</u>	<u>-</u>	<u>1,398,656</u>	<u>-</u>
	Total Expenditures of Federal Financial Assistance Awards			<u>\$ 22,869,913</u>	<u>\$ 91,791</u>	<u>\$ 22,961,704</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, 2022

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, 2022. 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 contained in the 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 \$22,961,704 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, 2022 and have issued our report thereon dated March 24, 2023.

Report on 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.

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 of
Puerto Rico Department of
Corrections and Rehabilitation
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Report on 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.



San Juan, Puerto Rico
March 24, 2023
License No. LLC-322
Expires December 1, 2023

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 Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Commonwealth of Puerto Rico Department of Corrections and Rehabilitation's (the Department) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2022. The Department's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

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Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

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Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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



San Juan, Puerto Rico
March 24, 2023
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Commonwealth of Puerto Rico
Department of Corrections and Rehabilitation

Schedule of Findings and Questioned Costs – (continued)

Year ended June 30, 2022

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, 2022

None.