
COMMONWEALTH OF PUERTO RICO

SOCIOECONOMIC AND COMMUNITY
DEVELOPMENT OFFICE

FINANCIAL STATEMENT – CASH BASIS,
SUPPLEMENTARY INFORMATION AND INDEPENDENT
AUDITORS' REPORT
(WITH THE ADDITIONAL REPORTS AND
INFORMATION REQUIRED BY THE *GOVERNMENT*
AUDITING STANDARDS AND THE *UNIFORM GUIDANCE*)

For the Fiscal Year Ended June 30, 2022



1208 Ave. Franklin D. Roosevelt

San Juan Puerto Rico 00920

Visit our website at www.odsec.pr.gov/

Thais M. Reyes Serrano, Executive Director

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López-Vega, CPA, PSC

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying cash basis financial statement of the **Socioeconomic and Community Development Office (Office)** which comprise the Statement of Cash Receipts and Disbursements – Governmental Funds for the fiscal year ended June 30, 2022, and the related notes to the cash basis financial statement.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements transactions of the **Office's** governmental funds, and the respective cash basis net changes thereof, for the fiscal year ended June 30, 2022, in conformity with the 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 Statement section of our report. We are required to be independent of the **Office** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described in **Note 1**, the **Office** prepares its Statement of Cash Receipts and Disbursements – Governmental Funds 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 opinions are not modified with respect to this matter.

Responsibilities of Management 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**, and for 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 financial statement that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statement – (continued)

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 the **Office's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

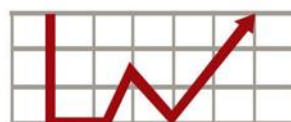
Auditors' Responsibilities for the Audit of the Financial Statement

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the **Office'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 the **Office'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.



López-Vega, CPA, PSC

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As described on **Note 9** on March 15, 2022, the Commonwealth of Puerto Rico's Plan of Adjustment was confirmed and approved. Accordingly, at that date the Plan became effective. Also, the **Office's** Statement is intended to present fairly the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **5** through **9** and **24** be presented to supplement the financial statement.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the **Office's** financial statement. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the financial statement themselves, 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 financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023, on our consideration of the **Office's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Office's** internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Office's** internal control over financial reporting and compliance.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 29, 2023

Stamp No. E486960 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INTRODUCTION

As management of the **Socioeconomic and Community Development Office (Office)**, we offer to the readers of this annual financial report our discussion and analysis of the **Office's** financial performance during the fiscal year ended June 30, 2022. The following discussion and analysis has been designed to accomplish the following goals:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the **Office's** financial activity;
- Identify any material deviations from the financial plan (the approved budget), and;
- Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the **Office's** financial statement.

ORGANIZATION AND MISSION STATEMENT

Law 10-2017

Law 10-2017, creates the "**Socioeconomic and Community Development Office**" (known as **ODSEC** by its Spanish acronym). Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to **Office** the administration of federal funds known as "Community Development Block Grant"(CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108". On July 27, 2018 Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of "Oficina de Desarrollo Socioeconómico Comunitario"(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the "Community Development Grant" (CDBG) funds, the special funds included in the CDBG program that include the "Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program" (NSP), "Disaster Recovery" and the funds under the Section 108 Loan Program, known as the "Loan Guarantee Assistance Under Section 108".

In addition, the **Office** receives and administers the "Community Services Block Grant"(CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** receives and administers the "Juvenile Justice and Delinquency Prevention Fund" to support states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence. Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low-income persons, motivation and training programs, community improvement projects, programs to organize the communities' leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The annual final budgetary appropriation amounted to \$4,829,157 for the fiscal year ended June 30, 2022. In addition, the Office receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2022 the **Office** received \$50,361 from Legislature Resolutions.

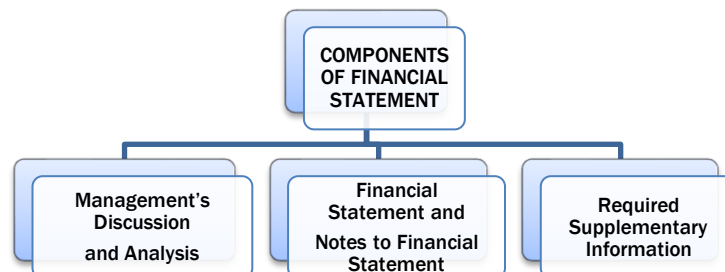
FINANCIAL HIGHLIGHTS

- In the **Office** Statement of Cash Receipts and Cash Disbursements – Governmental Funds, the actual cash receipts exceeded actual cash disbursements by \$1,265,984.
- The General Fund (the primary operating fund) cash receipts amounted to \$5,285,923 and represents 12% of total cash receipts during the fiscal year.
- The General Fund (the primary operating fund) cash disbursements amounted to \$3,472,812 and represents 8% of total cash disbursement for the fiscal year.
- During the fiscal year 2021-2022, federal funds received amounted to \$37,214,785 and federal funds disbursements amounted to \$37,286,312.
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$1,813,111.

FINANCIAL STATEMENT PRESENTATION

Overview of the Financial Statement

The **Office's** financial statement comprises three components: (1) management discussion and analysis, (2) financial statement, and (3) required supplementary information.



- **Financial Statement** -The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statement is not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services, U.S. Department of Justice and U.S. Department of Treasury. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

- **Notes to the Financial Statement** – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund.

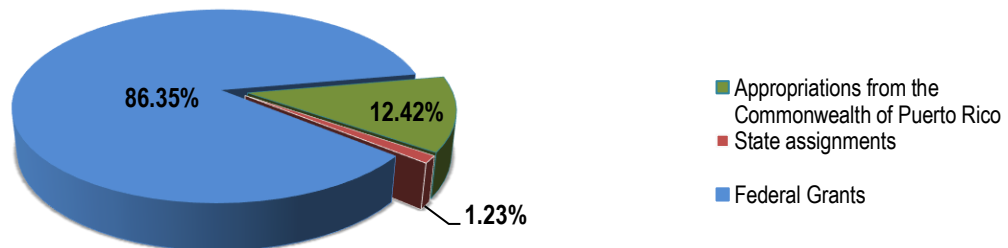
➤ **FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE**

Governmental Fund Financial Statement

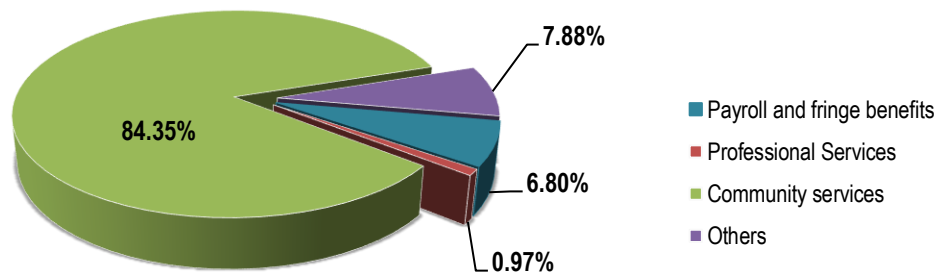
The governmental fund financial statement focuses on major funds. The **Office's** major funds are the general fund (which accounts for the main operating activities of the **Office**) and federal fund (which account for all grants received from the federal programs). The **Office's** Statement of Cash Receipts and Cash Disbursements for fiscal year ended June 30, 2022, presented those four major funds: 1) General Fund; 2) Community Service Block Grant – Federal 3) Community Services Block Grant - Federal Cares Act and 4) Other Non-Major Funds.

The following figures present how governmental activities of the **Office's** basic services were financed and distributed. These activities are primarily financed through state assignments and federal grants. The accounts of the **Office** are organized on two fund types: general fund and federal fund. The **Office** maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund, which correspond to the funds accounted for the operations of the **Office** and appropriations granted for specific purposes, respectively. The measurement focus of the **Office's** governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending and determination of the excess (deficiency) of receipts over (under) cash disbursements, rather than upon net income determination. Such financial information is useful in assessing the **Office's** financing requirements.

Cash Receipts 2022



Cash Disbursements 2022



FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

GENERAL FUND BUDGETARY HIGHLIGHTS

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **Office**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$1,813,111.

ECONOMIC FACTORS

Approval of Commonwealth's Plan of Adjustment

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

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt. On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

ECONOMIC FACTORS (CONTINUED)

Approval of Commonwealth's Plan of Adjustment(continued)

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment. Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss.

By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending. On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

The Cares Act 2020

This award reflects supplemental Community Services Block Grant (CSBG) funding available to the state under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136 (2020). The state must use CSBG Cares Act funds to help prevent, prepare for, or respond to the coronavirus.

FINANCIAL CONTACT

The **Office's** financial statement are designed to present the readers with a general overview of the cash receipts and cash disbursements of the **Office**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico **Socioeconomic and Community Development Office** Executive Director, 1208 Ave. Franklin D. Roosevelt, San Juan Puerto Rico 00920.

	<u>General Fund</u>	<u>Community Services Block Grant – Federal</u>	<u>Community Services Block Grant – Federal CARES Act</u>	<u>Other Non-Major Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS					
Appropriations from the Commonwealth of Puerto Rico	\$ 5,285,923	\$ -	\$ -	\$ -	\$ 5,285,923
State assignments	-	-	-	50,361	50,361
Federal Grants	-	34,658,940	2,064,419	491,426	37,214,785
Total receipts	<u>5,285,923</u>	<u>34,658,940</u>	<u>2,064,419</u>	<u>541,787</u>	<u>42,551,069</u>
CASH DISBURSEMENTS					
Payroll and fringe benefits	1,682,956	828,829	169,360	124,671	2,805,816
Professional services	255,612	56,584	89,966	-	402,162
Equipments	-	1,000	22,225	33,870	57,095
Supplies and materials	-	415,663	1,312,368	-	1,728,031
Utilities	161,964	-	-	141,756	303,720
Transportation	19,568	41,886	-	-	61,454
Community services	1,272,265	32,791,733	143,583	616,556	34,824,137
Others	80,447	523,245	326,917	172,062	1,102,670
Total disbursements	<u>3,472,812</u>	<u>34,658,940</u>	<u>2,064,419</u>	<u>1,088,915</u>	<u>41,285,085</u>
Excess of cash receipts over (under) cash disbursements	<u>\$ 1,813,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (547,128)</u>	<u>\$ 1,265,984</u>

The accompanying notes to financial statement – cash basis is an integral part of this Statement.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Law 10-2017, creates the “**Socioeconomic and Community Development Office**” (known as **ODSEC** by its Spanish acronym). Under the provisions of this Act the **Office of the Commissioner for Municipal Affairs (OCAM)** transferred to **Office** the administration of federal funds known as “Community Development Block Grant” (CDBG), the special funds includes Community Development Block Grant Fund, CDBG - Disaster Recovery Enhancement Fund, CDBG - Neighborhood Stabilization Fund and Section 108 Loan Program, known as the “Loan Guarantee Assistance Under Section 108”.

On July 27, 2018, Law 162 amends Article 4.1 of Law 10-2017, as known Organic Law of “Oficina de Desarrollo Socioeconómico Comunitario”(ODSEC) which indicates that the Department Housing of the Government of Puerto Rico will be the entity designated to receive and administer the “Community Development Grant” (CDBG) funds, the special funds included in the CDBG program that include the “Community Development Block Grant for Disaster Recovery (CDBG-DR), the Neighborhood Stabilization Program” (NSP), “Disaster Recovery” and the funds under the Section 108 Loan Program, known as the “Loan Guarantee Assistance Under Section 108”.

In addition, the **Office** receives and administers the “Community Services Block Grant” (CSBG) to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Also, the **Office** receives and administers the “Juvenile Justice and Delinquency Prevention Fund” to supports states and communities in their efforts to development and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

The **Office** is responsible for carrying out the programs of the Commonwealth directed toward the development of the low-income communities in Puerto Rico. In addition, the **Office** acts as a coordinator social service programs or programs of any related nature giving emphasis to the self-motivation of individuals to achieve good life conditions and develop their skills to reach an economic and social independence.

Through its own actions or in coordination with other government or private organizations, the **Office** carries out programs of direct training to low-income persons, motivation and training programs, community improvement projects, programs to organize the communities’ leaders, guidance programs for individuals and families and any other activity which leads to the social improvement of communities as wells as of individuals.

Financial Reporting Entity

The **Office** is for financial reporting purposes, part of the Commonwealth of Puerto Rico. Its financial data is included as part of the Commonwealth of Puerto Rico's financial statement, and as such, the Treasury of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the **Office** by the Legislative Branch and Federal Agencies. The Treasury Department of Puerto Rico also handles and records expenditures made with such funds and provides the **Office** with reports regarding such activities.

The financial information included in the accompanying Statement of Cash Receipts and Cash Disbursements was obtained from the Puerto Rico Treasury Department’s Integrated Financial Accounting System (PRIFAS) and is issued solely to comply 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 of America and for the information to the federal awarding agencies, pass-through entities, regulators, management and those charged with the governance.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accounts of the **Office** are organized on the basis of the three fund types: general fund, federal funds, and others governmental funds. The **Office** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **Office** and appropriations granted for specific purposes, respectively. As more fully explained in the section “Basis of Accounting” below, each fund is accounted for with a set of accounts which include only receipts and disbursements.

No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **Office** from programs funded by the Federal Government. The individual funds included in this fund type are classified accordance with their cost category.

Basis of Accounting

The **Office’s** accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles (GAAP) in the United States of America, as established by the Governmental Accounting Standards Board (GASB).

The **Office** follows a receipts and disbursements method of accounting to account for all funds administered under this method, cash, or funds transfer-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Receipts and Disbursements is not intended to present the **Office’s** results of operations in accordance with generally accepted accounting principles in the United States of America.

Budgetary Accounting

Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year’s budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

The operations of the **Office** are funded through annual budgetary appropriations approved by the Legislature of the Commonwealth of Puerto Rico. The original annual budgetary appropriation amounted to \$2,505,000 and its final revision amounted to \$ 4,829,157. For the fiscal year ended June 30, 2022. In addition, The **Office** receives state funds assignment by Commonwealth Legislature Resolutions. During the fiscal year ended June 30, 2022, the **Office** received \$50,361 from legislative resolutions.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred. This cash basis of accounting differs from GAAP primarily because revenue is recognized when received in cash rather than when earned and subject to accrual, and expenditures are recognized when paid rather than when incurred to subject to accrual.

This financial statement has been prepared pursuant to the provision of Law No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act”. This law establishes public policy with respect to the control of an accounting for public funds and property. The **Office** funds are, by law, under custody and control of the Secretary of Treasury in the PRIFAS accounting system.

Financial information of the **Office** is presented in this report as follow:

1. **Management’s discussion and analysis** – Introduces the financial statement and provides an analytical overview of the **Office’s** financial activities.
2. **Financial Statement** – The **Office** uses the cash basis of accounting to account for all governmental funds administered. Under this method, revenue received is recognized as cash when funds are transferred in and expenditures are recognized when funds are disbursed or transferred out. Therefore, the statement is not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statements of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of Health and Human Services, U.S. Department of Justice and U.S. Department of Treasury. It also presents the cash disbursements for governmental. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, other nonfinancial factors shall be considered within any comprehensive analysis.

3. **Notes to the Financial Statement** – Provides integral information needed to explain the basis for the numbers used within the Financial Statement and provide more detailed data.
4. **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund. Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year’s budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Measurement Focus (continued)**

Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Major funds are determined based on a minimum criterion, that is, a percentage of the cash receipts or cash disbursements or based on the **Office** official's criteria if the fund is particularly important to financial statement users.

The **Office** reports the following major governmental funds:

1. **General Fund** – is the general operating fund of the **Office**. It is used to account for and report all financial resources, except for those required to be accounted for in another fund. It is presumed that the **Office's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than general fund. Its revenue consists mainly of state appropriations.
2. **Community Services Block Grant – Federal** – The objective of this program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. Funds can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.
3. **Community Services Block Grant – Federal CARES Act** – This award reflects supplemental Community Services Block Grant (CSBG) funding available to the state under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136 (2020). The state must use CSBG CARES Act funds to help prevent, prepare for, or respond to the coronavirus.

The **Office** also reports nonmajor governmental fund in a single column, which includes the following:

1. **Special Account Fund** – This fund is used to account for resources of funds that are deposited for specific purposes in accordance with its applicable laws. They can come from governmental entities and authorizations by the Legislature of Commonwealth of Puerto Rico, which are designated to achieve specific purposes. Expenditures charged to these accounts are authorized by legislation previously approved.
2. **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grants Awards administered by the **Office**. The nonmajor governmental fund include the Juvenile Justice and Delinquency Prevention Fund – This fund is used to account for the proceeds for the resources received from the United States Department of Justice. This program supports states and communities in their efforts to develop and implement effective and coordinated prevention and intervention programs and to improve the juvenile justice system so that it protects public safety, holds justice-involved youth appropriately accountable, and provides treatment and rehabilitative services tailored to the needs of juveniles and their families.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess (deficiency) Statement Line

The excess (deficiency) of receipts over (under) disbursement statement lines represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these lines are not comparable to an excess or deficiency over funds assigned and not represent a superavit or a deficit of the **Office**.

Property and Equipment Acquisition

Property and equipment resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in **Office's** financial statement.

Interfund Transactions

The **Office** has the following types of transactions among funds:

1. Interfund transfers

Interfund transfers represent temporary loans between the funds.

2. Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

Compensated Absences

The **Office** employees' are granted 15 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's vested annual leave is recorded as expenditure when utilized. No accrued compensated absences are reported in **Office's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

Insurance

The **Office** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Office's** insurance coverage.

Claims and Judgments

The amount owed by the **Office** for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, are recorded when paid.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Pension Costs

Effective on July 1, 2017, the Office and other participants of the Employee Retirement System of the Government of the Commonwealth of Puerto Rico converted to a new “pay-as-you-go” (“PayGo”) model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. PayGo payments are recorded as expenditures/expenses in the financial statement.

At that date, the **Office’s** pension costs accounting transitioned from GASB Statement No. 68 to the requirements of GASB Statement No. 73 “*Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB No. 68*”. Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

Accounting for other postemployment benefits (“OPEB”)

GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*” is effective for the Agency starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not provided the updated financial statement, nor has it provided to the Agency with the required information to implement the referred accounting pronouncement. The Office’s contribution for OPEB is included as part of the “PayGo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). “PayGo” payments are recorded as expenditures\expenses in the financial statement.

2. CASH WITH FISCAL AGENTS

Department of the Treasury of the Commonwealth of Puerto Rico

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

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **Office** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment guidelines for the Commonwealth, as amended, adopted by the **Office** may invest in obligations of the Commonwealth, obligation of the United States, certificates of deposits, commercial paper, or banker’s acceptance. Therefore, **Office’s** management has concluded that on June 30, 2022, the custodial credit risk associated with the **Office’s** cash and cash equivalents is considered low.

3. FUND ADVANCES

The **Office** receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act established that all fund advances made will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2022, funds were advanced to **Office** for this purpose.

4. COMPENSATED ABSENCES

The employees of the **Office** are classified as either civil or members of the **Office**. All employees accrue regular vacation and sick leave at 1.25 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Legislature of the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually the accrued vacations and sick leave earned in excess of the limits mentioned above.

On February 4, 2017, the Government enacted Law No. 8 for the **Office** and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

Also, the employees hired before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hired after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

5. PENSION PLAN

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance and **Office**, effective on July 1, 2017. Those dispositions are summarized as follows:

Determination of accrued pension benefits as of June 30, 2017 and payments

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance with the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,

5. PENSION PLAN (CONTINUED)

Determination of accrued pension benefits as of June 30, 2017 and payments (continued)

- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the **Office** and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to special laws and additional uniform contributions are eliminated. Payments are made by the employers (the **Office**) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. Only July 20, 2017, ERS sold investment for approximately \$297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or **Office** to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. During the fiscal year 2021-2022, the **Office** was billed and recorded the amount of \$284,000 as PayGo expenditures.

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2022, employees' contributions amounted to \$167,430.

5. PENSION PLAN (CONTINUED)

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death

the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

Reform of ERS's governance and administration

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2018.

6. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **Office** is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain Administration of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No.483, as amended by Act No. 3).

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and **Office** for their former employees. The Administration's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

7. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the **Office**. Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the **Office** will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service, who have at least 30 years of credited service and the age for retirement, or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

For eligible employees that choose the economic incentives and have at least 30 years of credited service and the age for retirement or have the age for retirement, the **Office** will make the employee and the employer's contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program of that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the **Office**.

8. COMMITMENTS AND CONTINGENCIES

Litigation - The **Office** is defendant in lawsuits arising in the normal course of operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the laws of the Commonwealth of Puerto Rico, the **Office** is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the **Office**. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the **Office**.

Federal Awards - The **Office** participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriated grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the **Office** may be required to reimburse the grantors for such expenditures.

Comptroller's Office of Puerto Rico Reports - The **Office** is also subject to audits by the Comptroller's Office (COPR). As of financial statement of cash receipts, disbursements, and excess (deficiency) of receipts over (under) disbursement statement date, **Office** has no outstanding audits from COPR. Subsequently, the central government has issued several executive orders to deal with the impact of the COVID-19 pandemic.

The **Office's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place. On July 1, 2020, the **Office's** administrative and programmatic work was resumed as usual, following the protective measures established by the COVID-19 Contingency Plan issued by the **Office**.

9. APPROVAL OF COMMONWEALTH'S PLAN OF ADJUSTMENT

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

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt. On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico”, which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

10. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 29, 2023, the date the financial statement were available to be issued.

Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico

On February 21, 2023, the Office of the Administration and Transformation of Human Resources of the Government of Puerto Rico issued the Normative Letter No. 1-2023 in order to comply with the provisions and requirement of Law 8-2017 enacted on February 4, 2017.

Law No. 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico," establishes the Government of Puerto Rico as the Sole Employer, which means that public employees will be employees of the Central Government and not of the agencies. In addition, it centralizes the human resources administration system, eliminating from the category of individual administrators all those agencies and public instrumentalities of the Government of Puerto Rico, to guarantee the best use of the services offered by public servants.

Also, Law No. 8-2017, in its Article 4, creates the System of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, Human Resources System) which will be administered by the Office of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, OATRH by its Spanish acronym) with the main purpose of achieving a job classification system aimed at applying, strengthening, evaluating and protecting the Merit Principle in public service. In addition, Law No. 8-2017 gave the OATRH the responsibility of centralizing and unifying the job classification plans of the agencies and public instrumentalities attached to the Central Government.

The classification of positions is based on criteria of uniformity, which is the basis of the equal and fair treatment that the Merit Principle would enter into public service. A job classification plan is a system by which the duties, responsibilities and authorities of positions are studied, analyzed and ordered and grouped into classes or series of classes. Accordingly, uniform treatment of posts and the employees occupying them is ensured in all matters relating to human resources administration. Among the advantages offered by a job classification plan are the following:

- Facilitates the job classification process
- Establishes the basis for the recruitment and selection of job candidates, as the class specifications contain the minimum requirements required for classes
- Provides for the determination of training needs to employees
- Facilitates the preparation of the budget
- Facilitates the processes of promotions, transfers and descents
- Establishes uniform occupational terminology
- Serves as an instrument for solving problems that may arise in the organization

10. SUBSEQUENT EVENTS (CONTINUED)

Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico(continued)

The OATRH shall establish and maintain a rational structure of functions that tends to the greatest possible uniformity and that serves as a basis for the different human resources actions in the Central Government, as a Single Employer. The functions for carrying out government programs will be organized in such a way that logical units of work can be identified. These, in turn, will be integrated by groups of duties and responsibilities that will constitute the basic unit of work, that is, the position.

In accordance with the above, the OATRH developed the Job Classification Plans for the Career Service and the Trust Service (hereinafter, Classification Plans) of the Central Government, by virtue of the legal authority conferred on this Office by Article 4, Section 4.3, subsection (2) (o) and (p) of Law No. 8-20173. The implementation of the Classification Plans was effective as of July 1, 2019. In these Rules to Complete the Implementation Process of the Job Classification Plan of the Central Government Career Service, effective July 1, 2019 and the New Salary Structure that will govern the Career Service of the Central Government, effective January 1, 2023 (hereinafter, the Rules), explains the process of implementing job classification and the new salary structure of the Central Government Career Service.

As of the date of the financial statement, the economic impact, if any, of the implementation of the job classification system described above has not been determined.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
CASH RECEIPTS				
Appropriations from the Commonwealth of Puerto Rico	\$ 2,505,000	\$ 4,829,157	\$ 5,285,923	\$ 456,766
Total cash receipts	<u>2,505,000</u>	<u>4,829,157</u>	<u>5,285,923</u>	<u>456,766</u>
CASH DISBURSEMENTS AND ENCUMBRANCES				
Payroll and fringe benefits	1,751,000	1,751,000	1,682,956	68,044
Professional services	324,000	324,000	255,612	68,388
Equipments	5,000	10,429	-	10,429
Supplies and materials	40,000	40,000	-	40,000
Permanent improvements	66,000	2,356,000	1,272,265	1,083,735
Utilities	172,000	132,000	161,964	(29,964)
Transportation	58,000	51,185	19,568	31,617
Others	89,000	164,543	80,447	84,096
Total cash disbursements and encumbrances	<u>2,505,000</u>	<u>4,829,157</u>	<u>3,472,812</u>	<u>1,356,345</u>
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,813,111</u>	<u>\$ 1,813,111</u>

See notes to Budgetary Comparison Schedule.

Note 1 - General

As an Executive Agency of the Commonwealth of Puerto Rico, the **Office** uses the following procedures in establishing the budget adopted for the General Fund:

- a. The **Office**'s management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).
- b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the Legislature.
- c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project is prepared (the 1st of July of each year).
- d. Once the budget project is approved, legally adopted and in operations, the **Office**'s management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.
- e. Formal budget integration is employed as a management control device during the fiscal year for the General Fund.
- f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the **Office** in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statement purposes, the **Office** considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present compliance with budget adopted, which lapses at the end of fiscal year.

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF JUSTICE				
Direct Program:				
Juvenile Justice and Delinquency Prevention- allocation to State (States Formula Grant)	16.540	2019JXFX048	\$ -	\$ 14,800
		2019JXFX039	-	76,727
Total Juvenile Justice and Delinquency Prevention- allocation to State (States Formula Grant)			-	91,527
Total U.S. Department of Justice			-	91,527
U.S. DEPARTMENT OF TREASURY				
Pass-through the Puerto Rico Fiscal Agency and Financial Advisory Authority:				
Coronavirus State and Local Fiscal Recovery Fund	21.027	N/AV	-	471,426
Total U.S. Department of Treasury			-	471,426
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Program:				
Community Services Block Grant	93.569			
FY2021CSBG Program		G22-B1PRCOSR	11,299,382	11,299,382
FY2020CSBG Program		G21-B1PRCOSR	21,492,351	22,650,569
FY2019CSBG Program		G20-B1PRCOSR	-	708,989
COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental	93.569	G20-01PRCSC3	143,583	2,064,419
Total U.S. Department of Health and Human Services			32,935,316	36,723,359
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 32,935,316	\$ 37,286,312

See notes to Schedule of Expenditures of Federal Awards.

A. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **Socioeconomic and Community Development Office (Office)** from all federal programs for the year ended June 30, 2022. The **Office's** reporting entity is defined in **Note 1** to the financial statement.

B. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and was prepared following the modified accrual basis of accounting.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the cash basis of accounting. 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.

D. FEDERAL ASSISTANCE LISTING NUMBER AND PASS-THROUGH ENTITY IDENTIFYING NUMBER

The Assistance Listing Number (FALN), formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. Assistance listings are detailed public descriptions of federal programs that provide grants, loans, scholarships, insurance, and other types of assistance awards. The Sam.gov assistance listing is the publicly available online database showing all available Federally-funded programs.

State or local government redistributions of federal awards to the **Office**, known as “pass-through awards”, should be treated by the **Office** as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

E. INDIRECT COST RATE

The **Office** has elected not to use the 10% minimum cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2022.

F. RECONCILIATION TO FINANCIAL STATEMENT

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has been reconciled to the information reported in the **Office's** financial statement as follows:

Community Service Block Grant Fund	\$ 34,658,940
COVID-19 Community Services Block Grant -	
CARES Act Supplemental	2,064,419
Coronavirus State and Local Fiscal Recovery Fund	471,427
Juvenile Justice and Delinquency Prevention – Allocation to State	91,526
Total	<u><u>\$ 37,286,312</u></u>



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

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statement – cash basis of the governmental activities, each major fund and the aggregate remaining fund information of the **Socioeconomic and Community Development Office (the Office)**, as of and for the year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Office's financial statement as listed in the table of contents, and have issued our report thereon dated March 29, 2023.

Emphasis of Matter

As described on **Note 9** on March 15, 2022, the Commonwealth of Puerto Rico's Plan of Adjustment was confirmed and approved. Accordingly, at that date the Plan became effective. Also, the **Office's** Statements are intended to present fairly the cash receipts, disbursements, and net changes of the governmental funds and proprietary fund of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the **Office'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 **Office's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Office'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 statement will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as item **2022-001** that we consider to be material weaknesses.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Office's** financial statements are 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2022-001** and **2022-002**.

Office's Response to Findings

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

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 **Office'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 **Office's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirements

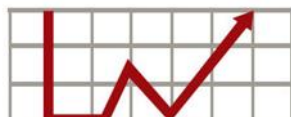
This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 29, 2023

Stamp No. E486961 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

To the Executive Director
Commonwealth of Puerto Rico
Socioeconomic and Community Development Office
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited the **Socioeconomic and Community Development Office (Office)** 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 's major federal programs for the year ended June 30,2022. **Office's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Basis for Qualified Opinion

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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **Office** 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 **Office's** compliance with the compliance requirements referred to above.

Qualified Opinion on Community Services Block Grant (Assistance Listing Number 93.569)

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion section of our report, the **Office** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Community Services Block Grant (Assistance Listing Number 93.569) for the year ended June 30, 2022.

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

Matter Giving Rise to Qualified Opinion on Disaster Grants – Community Services Block Grant (Assistance Listing Number 93.569)

As described in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with requirements regarding the Community Services Block Grant (Assistance Listing Number 93.569) as described in finding numbers **2022-002** for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the **Office** to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **Office'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 **Office'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 **Office's** internal control over compliance. Accordingly, no such opinion is expressed.



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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item **2022-002**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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, non-compliance 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 non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item **2022-002** to be material weaknesses. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on the **Office's** response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The **Office's** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

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.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the United States Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 29, 2023

Stamp No. E486962 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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Section I – Summary of Auditors’ Results

The independent auditors’ report on the cash basis financial statement expressed an unmodified opinion, and that such cash basis financial statement was prepared using the cash basis method of accounting, which is a basis of accounting other than US GAAP.

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies)? Yes No
- Noncompliance material to financial statement noted? Yes No

Federal awards

Internal Control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies)? Yes No

Type of auditors’ report issued on compliance for major programs:

Qualified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516 (a) of the Uniform Guidance? Yes No

Identification of Major Federal Programs:

<u>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.569	Community Services Block Grant
93.569	COVID-19 Community Services Block Grant - 2020 CARES Act Supplemental
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 1,118,589</u>
Auditee qualified as low-risk auditee?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Section II – Financial Statement Findings

Finding Reference 2022-001

Requirement **Financial Reporting- Accounting Records**

Type of finding **Material weakness (MW), Instance of Noncompliance (NC)**

This finding is similar to prior years finding 2021-001, 2020-001 and 2019-001.

Statement of Condition The **Socioeconomic and Community Development Office (Office)** does not maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury, entity that controls the Office’s budget and accounting in the PRIFAS accounting system.

To mitigate this deficiency, the **Office** engaged with an external consultant to analyze the information obtained from the accounting system in order to make an annual reconciliation.

Criteria Law 230 of July 23, 1974, as amended, states that the accounting system will be designed in a manner which provides clear and complete information of the results of the financial operations. Also, the accounting system should provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.

Cause of Condition The **Office** has not finished the process of establishing internal controls to maintain monthly reconciliations with the transactions reported on the GL-1292 as kept by the Department of Treasury.

Effect of Condition The **Office’s** accounting system did not provide updated and complete financial information that present the result of operations on a monthly basis Such information is necessary to make management decisions.

Recommendation We recommend that the **Office’s** management continue with the implement action of internal controls and procedures in order to maintain an accounting system that actualized and reconciled on a monthly basis.

Questioned Costs None

View of Responsible Official and Planned Corrective Action Plan The **Office** agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. The **Office’s** administration hired an external and independent consultant that is assisting in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters.

Section II – Financial Statement Findings

Finding Reference 2022-001 (continued)

**View of Responsible
Official and Planned
Corrective Action Plan**

In addition, the **Office's** administration purchased an accounting system (*Purchase Order 21329142 – June 30, 2021*) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation, conciliation, and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.

Implementation Date During the 2023-2024 fiscal year

Responsible Person Mr. Armando López, Finance Director

Section III-Major Federal Award Program Finding and Questioned Costs

Finding Reference 2022-002

Federal Agency U.S. Department of Health of Health and Human Services
Federal Program Title Community Services Block Grant (ALN 93.569)

Compliance Requirement Subrecipient Monitoring (M)

Type of finding Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)

This finding is similar to prior years finding 2021-002, 2020-005 and 2019-005.

Statement of Condition We performed audit procedures to the four (4) sub-recipient monitoring reports. Out of those subrecipients, we found three (3) that lacked adequate monitoring procedures.

Criteria 42 USC 9914 (a)(1)(2), establishes that (a) In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of State, the State shall conduct the following reviews of eligible entities:(1) a full onsite review of each such entity at least once during each 3-year period, (2) an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives funds through the Community Services Block Grant Program (CSBG).

Cause of Condition Internal Control Monitoring Program for Federal Funds CSBG establishes the guidelines over monitoring reports. The **Office** does not have sufficient staff to perform monitoring reviews to sub-recipients.

Effect of Condition The **Office** cannot ensure that the delegated funds to the sub-recipients are being used to meet the goals and standards required by the State. Also, the **Office** is not in compliance with the 42 USC 9914 (a)(1)(2).

Recommendation The **Office** should strengthen internal control procedures in the supervision process of the monitoring in order to comply with state and federal regulations.

Questioned Cost None

View of Responsible Official and Planned Corrective Action Plan The **Office** agrees with the audit recommendation. The **Office's** Administration created two positions for the monitoring area. In addition, **Office's** Administration is in the process of procuring an external resource that will assist the monitoring and comply with federal requirements.

Section III-Major Federal Award Program Finding and Questioned Costs

<u>Finding Reference</u>	<u>2022-002</u>
Implementation Date	During the 2023-2024 fiscal year
Responsible Person	Mrs. Nadia Torres Ortiz, Federal Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2022-001	We concur with the finding.	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. Office's Administration hired an external and independent consultant that is assisting in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters.</p> <p>In addition, the Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 30, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation, conciliation, and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p> <p>Implementation Date: During the fiscal year 2023-2024</p> <p>Responsible Persons: Mr. Armando López Financial Officer</p>

March 29, 2023

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2022-002	We concur with the finding.	<p>The Office agrees with the audit recommendation. The Office's Administration created two positions for the monitoring area. In addition, Office's Administration is in the process of procuring an external resource that will assist the monitoring and comply with federal requirements.</p> <p>Implementation Date: During the fiscal year 2023-2024.</p> <p>Responsible Persons: Mrs. Nadia Torres Ortiz Federal Director</p>

March 29, 2023

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Thais M. Reyes Serrano, Executive Director

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2021-001	Financial Reporting-Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system.</p> <p>Also, the Office did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p>	None	Not resolved yet. See current year Finding 2022-001 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2021-002	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for three (3) sub-recipient of the Office's did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The Office agrees with the audit recommendation. The Office established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Not resolved yet. See current year Finding 2022-002 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-001	Financial Reporting-Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system.</p> <p>Also, the Office did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p>	None	Not resolved yet. See current year Finding 2022-001 .

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-002	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence that the physical has been completed. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2019-2020 was not updated. d) We noted that the Office acquire seven (7) Microsoft Surface Pro 6 through general fund and federal fund with a cost of \$12,355.00. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquired twenty-eight (28) HP Elite Computers with a cost of \$39,060.00. This units were not included in the Property Subsidiary Ledger.	<p>The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department.</p> <p>The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.</p>	None	Full corrective action has been taken.

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-003	Expenditures for Goods and Services and Purchasing and Receiving	We performed a cash disbursements test and examined seventeen (17) payments which belonged to General Fund; eleven (11) which belonged to Special Revenue Fund and thirty-two (32) which belonged to Federal Fund. The following will summarize the internal control exceptions noted: a) During our examination of the Office's documentation on purchasing and receiving, we detected that the Office does not have adequate and effective internal controls to ensure that all the required information was supported the transactions by appropriate documentation. b) In four (4) payments which belonged to Special Revenue Fund and Federal Fund, the original disbursement voucher and purchase order were not available for our examination. b) In three (3) payments which belonged to Federal Fund, the original documents where the payments are approved by the director or authorized representative were not available for our examination. c) In eight (8) payments which belonged to Special Revenue Fund and Federal Fund, the purchase order or contract were not available for our examination.	The Office agrees with the audit recommendation. The Office's disbursement vouchers include all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Full corrective action has been taken.

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Thais M. Reyes Serrano, Executive Director

Contact Person: Mr. Armando López, Accounting Supervisor

Phone: (787) 977-7060, ext. 2002

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-004	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence that the physical has been completed. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2019-2020 was not updated. d) We noted that the Office acquire seven (7) Microsoft Surface Pro 6 through general fund and federal fund with a cost of \$12,355.00. Those properties were not included in the Property Subsidiary Ledger. However, we examine that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquire twenty-eight (28) HP Elite Computers with a cost of \$39,060.00. This units were not included in the Property Subsidiary Ledger.	The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Full corrective action has been taken.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-005	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for three (3) sub-recipient of the Office's did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The Office agrees with the audit recommendation. The Office established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Not resolved yet. See current year Finding 2022-002 .

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-001	Financial Reporting-Accounting Records	<p>The Socioeconomic and Community Development Office (Office) does not maintain monthly reconciliations with the transaction reported on the GL-1292 as kept by the Department of Treasure, entity that controls the office's budget and accounting in the PRIFAS accounting system.</p> <p>Also, the Office did not maintain an accounting that summarizes the transactions of all of its General Ledger format in order to properly record cash receipts, cash disbursements and obligations for the transactions of all of its Governmental Funds (Local, State and Federal funds).</p>	<p>The Office agrees with the audit recommendation. We acknowledge the importance of documented policies and procedures in accounting records. ODSEC's Administration is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures Manual for all financial reporting matters. In addition, the Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. Also, the accounting system must provide reliable reports for the preparation and justification of the budget needs and to control the budget execution which constitute an effective control over the revenues, expenditures, funds, property and other assets.</p>	None	Not resolved yet. See current Finding 2022-001 .

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2019-002	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence of the physical inventory documentation duly supervised. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2018-2019 was not updated. d) We noted that the Office acquired four (4) sport utility vehicles through federal fund with a cost of \$117,659.06. Those properties were not included in the Property Subsidiary Ledger. However, we examined that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquired a van ford transit with a cost of \$45,495.00. This unit was not included in the Property Subsidiary Ledger.	The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provides clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Full corrective action has been taken.

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2019-003	Expenditures for Goods and Services and Purchasing and Receiving	We performed a cash disbursements test and examined seventeen (17) payments which belonged to General Fund; eleven (11) which belonged to Special Revenue Fund and thirty-two (32) which belonged to Federal Fund. The following will summarize the internal control exceptions noted: a) During our examination of the Office's documentation on purchasing and receiving, we detected that the Office does not have adequate and effective internal controls to ensure that all the required information was supported the transactions by appropriate documentation. b) In four (4) payments which belonged to Special Revenue Fund and Federal Fund, the original disbursement voucher and purchase order were not available for our examination. b) In three (3) payments which belonged to Federal Fund, the original documents where the payments are approved by the director or authorized representative were not available for our examination. c) In eight (8) payments which belonged to Special Revenue Fund and Federal Fund, the purchase order or contract were not available for our examination.	The Office agrees with the audit recommendation. The Office's disbursement vouchers include all the required supporting documents before the issuance of any payment and ensure that all the required information was supported and archived.	None	Full corrective action has been taken.

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2019-004	Capital Assets and Expenditures – Subsidiary ledger and Additions	During our audit, we noted the following exceptions: a) The Subsidiary Property Ledger did not detail the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date. b) We did not obtain evidence of the physical inventory documentation duly supervised. The property must be reconciled with accounting records at least once every two years. c) The model SC-1211 for the fiscal year 2018-2019 was not updated. d) We noted that the Office acquired four (4) sport utility vehicles through federal fund with a cost of \$117,659.06. Those properties were not included in the Property Subsidiary Ledger. However, we examined that these units were stamped with a property tag and the existence of these properties. e) We noted that the Office acquired a van ford transit with a cost of \$45,495.00. This unit was not included in the Property Subsidiary Ledger.	The Office agrees with the audit recommendation. The Office's administration purchased an accounting system (<i>Purchase Order 21329142 – June 3, 2021</i>) that will provide clear and complete information of the results of the financial operations in compliance with Regulation Num. 49 of the Treasury Department. The accounting system must provide reliable reports for the preparation of the Subsidiary Property Ledger that include the description, who hold the title, acquisition date, percentage of federal participation in the cost, location, condition and disposition date.	None	Full corrective action has been taken.

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2019-005	Subrecipient Monitoring Test	We performed audit procedures to the four (4) sub-recipient monitoring reports and we found that for three (3) sub-recipient of the Office's did not realize final monitoring procedures. Furthermore, we did not obtain support documents of the monitoring processes of any of the four (4) sub-recipients.	The Office agrees with the audit recommendation. The Office established the Monitoring Unit within the CSBG Administration in October of 2018, and it became fully functional at once, with its primary responsibility to perform Subrecipient Monitoring for CSBG Programs administered by ODSEC.	None	Not resolved yet. See current year Finding 2022-002 .

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2019-006	Single Audit Act	The Single Audit Report for the fiscal year ended June 30, 2019 was not issued within nine (9) months after the end of the audit period.	The Office agrees with the audit recommendation. The Office administration will improve the internal controls and procedures in order to assure it complies with the established Federal Regulation, as prescribed by OMB Super Circular Uniform Guidance.	None	Full corrective action has been taken.