

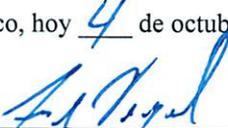
**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

“CERTIFICO Y DOY FE: Que toda la información aquí vertida y los documentos electrónicos que se anejan son fieles y exactos a los que constan en nuestros archivos. Entiendo que tanto la información como los documentos podrán ser verificados. Asimismo, soy consciente que de descubrirse cualquier falsedad o fraude sobre lo aquí afirmado y provisto, pudiera estar sujeto a las acciones legales correspondientes, según dispuesto por el Artículo 19 de la Ley Núm. 197 de 2002, según enmendada, conocida como la “Ley del Proceso de la Transición del Gobierno”.

En San Juan, Puerto Rico, hoy 4 de octubre de 2012.



Frank Vázquez Madera
Director de Finanzas

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**

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Israel Rolón

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

COMMONWEALTH OF PUERTO RICO PUERTO RICO STATE EMERGENCY AND DISASTER MANAGEMENT AGENCY SAN JUAN, PUERTO RICO

I was engaged to audit the accompanying financial statements of the **Puerto Rico State Emergency and Disaster Management Agency** (the Agency), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Agency's management.

The Agency changed its accounting system but did not maintain complete accounting records and supporting data for all funds expenditures for the fiscal year ended June 30, 2009, therefore I was unable to obtain sufficient competent evidential matter to satisfy myself about the assets, liabilities, revenue and expenditure amounts recorded in the accompanying financial statements.

Because of the significance of the matter discussed in the preceding paragraph, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with "Government Auditing Standards", I have also issued my report dated December 17, 2009 on my consideration of the Office's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in considering the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements of the **Puerto Rico State Emergency and Disaster Management Agency**, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations", and is not a required part of the financial statements. This schedule is also the responsibility of the management of the **Puerto Rico State Emergency and Disaster Management Agency**. Because I was unable to express an opinion on the combined statement of revenues and expenditures, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the Schedule of Expenditures of Federal Awards.

**SAN JUAN, PUERTO RICO
December 17, 2009**

Stamp number 2498572 was
affixed to the original of this
report.


ISRAEL ROLON, CPA



**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND
EQUITY - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2009**

	<u>GOVERNMENTAL FUND TYPES</u>		<u>ACCOUNT GROUPS</u>		<u>TOTALS (MEMORANDUM ONLY)</u>	
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>GENERAL FIXED ASSETS</u>	<u>GENERAL LONG-TERM DEBT</u>	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>						
Cash	\$2,111,702	\$3,879,008	\$ -	\$ -	\$ 5,990,710	\$ 7,160,479
Accounts receivable -						
Federal grants	-	-	-	-	-	-
Other	350,746	-	-	-	350,746	331,353
Fixed assets	-	-	8,271,293	-	8,271,293	6,934,406
Amount to be provided for payment of compensated absences	-	-	-	1,499,635	1,499,635	1,714,249
Total assets	<u>\$2,462,448</u>	<u>\$3,879,008</u>	<u>\$8,271,293</u>	<u>\$1,499,635</u>	<u>\$16,112,384</u>	<u>\$16,140,487</u>
<u>LIABILITIES</u>						
Accounts payable and accrued expenses	\$1,033,665	\$ 355,778	\$ -	\$ -	\$ 1,389,443	\$ 1,771,100
Deferred revenues	1,428,783	3,523,230	-	-	4,952,013	5,720,732
Accrued compensated absences	-	-	-	1,499,635	1,499,635	1,714,249
Total liabilities	<u>2,462,448</u>	<u>3,879,008</u>	<u>-</u>	<u>1,499,635</u>	<u>7,841,091</u>	<u>9,206,081</u>
<u>FUND EQUITY</u>						
Investment in general fixed assets	-	-	8,271,293	-	8,271,293	6,934,406
Total fund equity	<u>-</u>	<u>-</u>	<u>8,271,293</u>	<u>-</u>	<u>8,271,293</u>	<u>6,934,406</u>
Total liabilities and fund equity	<u>\$2,462,448</u>	<u>\$3,879,008</u>	<u>\$ 8,271,293</u>	<u>\$1,499,635</u>	<u>\$16,112,384</u>	<u>\$16,140,487</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
ALL GOVERNMENTAL FUND TYPES**

YEAR ENDED JUNE 30, 2009

	<u>GOVERNMENTAL FUND TYPES</u>		<u>TOTALS (MEMORANDUM ONLY)</u>	
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>2009</u>	<u>2008</u>
REVENUES				
Legislative appropriations net of encumbrances and surplus	\$ 8,435,391	\$ -	\$ 8,435,391	\$ 8,082,719
Other revenues	684,093	-	684,093	1,201,835
Federal grants	<u>-</u>	<u>5,804,812</u>	<u>5,804,812</u>	<u>3,675,776</u>
Total revenues	<u>9,119,484</u>	<u>5,804,812</u>	<u>14,924,296</u>	<u>12,960,330</u>
EXPENDITURES				
Salaries and related costs	<u>4,833,409</u>	<u>1,569,032</u>	<u>6,402,441</u>	<u>6,330,349</u>
Total salaries and related costs	<u>4,833,409</u>	<u>1,569,032</u>	<u>6,402,441</u>	<u>6,330,349</u>
Utilities and communications				
Utilities	257,293	-	257,293	558,370
Communications and online services	<u>518,805</u>	<u>-</u>	<u>518,805</u>	<u>585,084</u>
Total utilities and communications	<u>776,098</u>	<u>-</u>	<u>776,098</u>	<u>1,143,454</u>
Professional services	<u>510,021</u>	<u>1,563,914</u>	<u>2,073,935</u>	<u>1,227,757</u>
Contracted services:				
Other contracted services	691,575	112,489	804,064	846,859
Office and other equipment rent	<u>1,493,330</u>	<u>-</u>	<u>1,493,330</u>	<u>1,495,959</u>
Total contracted services	<u>2,184,905</u>	<u>112,489</u>	<u>2,297,394</u>	<u>2,342,818</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO STATE EMERGENCY AND
 DISASTER MANAGEMENT AGENCY**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
 ALL GOVERNMENTAL FUND TYPES (CONTINUED)**

YEAR ENDED JUNE 30, 2009

	<u>GOVERNMENTAL FUND TYPES</u>		<u>TOTALS (MEMORANDUM ONLY)</u>	
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>2008</u>	<u>2007</u>
Donations and subsidies:				
Municipalities and state agencies	371,007	170,753	541,760	414,023
Others	<u>218,500</u>	<u>-</u>	<u>218,500</u>	<u>84,093</u>
Total donations and subsidies	<u>589,507</u>	<u>170,753</u>	<u>760,260</u>	<u>498,116</u>
Transportation Costs:				
Travel and vehicle expenses	<u>18,439</u>	<u>281,319</u>	<u>299,758</u>	<u>54,182</u>
Other expenses				
Prior years	13,126	-	13,126	39,958
Current year expenses	<u>46,598</u>	<u>66,506</u>	<u>113,104</u>	<u>167,399</u>
Total other expenses	<u>59,724</u>	<u>66,506</u>	<u>126,230</u>	<u>207,357</u>
Equipment purchases				
Vehicles	-	-	-	356,021
Other	<u>41,973</u>	<u>981,483</u>	<u>1,023,456</u>	<u>437,045</u>
Total equipment purchases	<u>41,973</u>	<u>981,483</u>	<u>1,023,456</u>	<u>793,066</u>
Materials and supplies	<u>105,408</u>	<u>146,910</u>	<u>252,318</u>	<u>171,296</u>
Announcements	<u>-</u>	<u>912,406</u>	<u>912,406</u>	<u>191,935</u>
 Total expenditures	 <u>\$ 9,119,484</u>	 <u>\$5,804,812</u>	 <u>\$14,924,296</u>	 <u>\$12,960,330</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO STATE EMERGENCY AND
 DISASTER MANAGEMENT AGENCY**

**STATEMENT OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL - GENERAL FUND**

YEAR ENDED JUNE 30, 2009

	<u>GENERAL FUND</u>		
	<u>BUDGET ADJUSTED (NOTE 2E)</u>	<u>ACTUAL ADJUSTED (NOTE 2E)</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Legislative appropriations	<u>\$8,613,000</u>	<u>\$8,613,000</u>	<u>\$ -</u>
EXPENDITURES			
Salaries and related costs	4,805,000	4,703,101	101,899
Utilities and communications	630,860	765,976	(135,116)
Contracted services	2,023,135	2,359,338	(336,203)
Donations	378,500	60,000	318,500
Transportation costs	26,578	17,905	8,673
Professional services	446,821	506,097	(59,276)
Materials	79,314	116,766	(37,452)
Equipment and other expenses	<u>222,792</u>	<u>83,817</u>	<u>138,975</u>
Total expenditures	<u>\$8,613,000</u>	<u>\$8,613,000</u>	<u>\$ -</u>
EXCESS OF APPROPRIATIONS OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

NOTE 1 - ORGANIZATION

Organization

The Puerto Rico State Emergency and Disaster Management Agency (the Agency) is a governmental entity of the Commonwealth of Puerto Rico, created by law number 211 of August 2, 1999, as amended. The Agency is the organization engaged with specific duties and powers to coordinate all central government, private and federal plans directed to protect the inhabitants of the Commonwealth of Puerto Rico in any emergency or disaster.

The Agency is subsidized by appropriations from the Commonwealth of Puerto Rico, by federal grants received from the U.S. Federal Emergency Management Agency, by private donations and by funds derived from 911 telephone calls.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on a modified accrual basis of accounting as applicable to governmental units. The following is a summary of the significant accounting policies followed:

A. Reporting Entity

For financial statements purposes, the Agency is treated as a separate accounting entity. The Department of the Treasury of the Commonwealth serves as trustee of the funds assigned to the Agency by Commonwealth appropriations, federal grants and private funds.

B. Method of Presentation - Fund Accounting

The Agency's accounts are organized based on two governmental fund types which are considered separate accounting entities. The operations of each fund are recorded through a separate self-balancing set of accounts that comprises assets, liabilities, fund balance, revenues and expenditures.

The Agency maintains the following fund types:

General Fund:

The General fund is used to account for the financial resources of the Agency associated with the local government.

Special Revenue Funds

Special revenue funds are used to accounts for federal assistance and pass-through grants awarded by the Federal Emergency Management Agency (FEMA).

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Method of Presentation - Fund Accounting (continued)

The Agency also uses two account groups which are not considered funds. They are used to establish accounting controls and to account for general fixed assets and general long-term liabilities of the Agency. The account groups used by the Agency are the following:

General fixed assets account group, this group is used to account for all property and equipment of the Agency.

General long-term debt account group, this group is used to account for all general long-term debt of the Agency related to compensated absences such as vacations and sick leave.

C. Basis of Accounting

The modified accrual basis of accounting is followed by governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Expenditures are recorded in the accounting period in which the liability is incurred, except for accrued vacations and sick leave which are recorded in the general long-term debt account group.

General fund appropriations are recorded in the statement of revenues, expenditures and changes in fund balance, when the expenditure for which the specific appropriation was created is incurred. Therefore, the expenditure determines when the appropriation is recorded in the general fund.

Deferred revenues arise because the Agency's fiscal year differs from the fiscal year for which federal grants are awarded. The Agency's fiscal year ends June 30, while federal grants are awarded based on federal fiscal year which ends September 30. Federal grant revenues are recorded in the statement of revenues, expenditures and changes in fund balance, based on a straight-line apportionment of nine months for current year grants and three months for prior year grants to the extent the related expenditure has been incurred.

The unexpended cash balance of special revenues in the general fund are also presented as deferred revenues.

D. Encumbrances

Encumbrances are recognized for budgetary purposes. Through encumbrances, commitments related to unperformed contracts and undelivered goods are recorded to reserve the applicable portion of the appropriation. Encumbrances outstanding at year end are not reported in financial statements because they do not constitute expenditures. General fund encumbrances will be recorded as expenditures and appropriations in future financial statements as they are incurred. At June 30, 2009, general fund encumbrances amounted to \$298,073.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information

The Agency performs the following procedures to establish the budgetary information reflected in the financial statements:

General fund:

- The budget is prepared annually by the Agency and submitted for approval to the Legislature of the Commonwealth.
- The budget is approved based on a lump sum appropriation.
- The Agency submits the detailed budget by expense category to the Office of Management and Budget of the Commonwealth (OMB) for its accounting.
- The amounts of budgetary items can be amended only if such amendments do not exceed the original budget amount. Approval of OMB is required.
- The budget is prepared based on the modified accrual basis of accounting, except for encumbrances, as later explained.

Special Revenue Fund:

- Federal grants are awarded based on lump sum allotments from federal agencies.
- Annual operating budgets for federal programs are internally prepared by the Agency based on federal fiscal year, not the Agency fiscal year.
- Federal grant allotments can be carried over up to two years after the first year the grant is awarded.
- A combined statement of revenues and expenditures - budget and actual - for the special revenue fund, as required by generally accepted accounting principles, is not presented in the financial statements. The existing budgetary system for federal programs does not provide for a comparison of approved budgeted amounts with actual results of operations within the fiscal year because budget appropriations are authorized for more than one year and are based on a different fiscal year.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO STATE EMERGENCY AND
 DISASTER MANAGEMENT AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information (Continued)

- The actual adjusted result of operations presented in the statement of revenues and expenditures - budget and actual - general fund, is reported according to the budgetary accounting of the Agency for purposes of a better comparison with the budget.

The budget adjusted results of operations presented in the statement of revenues and expenditures - budget and actual - general fund, represent the legislative appropriations for the year ended June 30, 2009 for operating expenses of the Agency in the amount of \$8,613,000.

The major differences between the budgetary basis used to prepare the budget of the general fund and the accounting basis follows:

- In the budgetary basis, encumbrances are presented as expenditures.
- In the accounting basis, revenues are recorded when the related expenditures are incurred.

A reconciliation of revenues between the budgetary basis and the accounting basis follows:

	<u>Legislative Appropriations</u>
Revenues per the statement of revenues and expenditures – budget and actual – general fund	\$8,613,000
Add (Deduct):	
Encumbrances – current year	(206,754)
Encumbrances – prior year, recorded as expenditures in current year	<u>29,145</u>
Legislative appropriations per combined statement of revenues and expenditures	<u>\$8,435,391</u>

Law 144 of December 1994 known as the "911 Calls Law" provides funds to the Agency based on allocation determined by the 911 Service Board created therein. The proceeds are collected by the Telephone Authority through a special user charge and deposited in a special account carried by the 911 Service Board.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information (Continued)

Cash from other revenues related to Law 144 (911 Calls), Law 150 (Computerized system for municipalities' communication with the Agency) private donations and other receipts were used by the Agency as follows:

	<u>Law 150</u>	<u>Law 144</u>	<u>Donations and other laws</u>	<u>Total</u>
Cash, beginning of year	\$ 267,850	\$ 402,414	\$ 1,734	\$ 671,998
Add special revenues:				
Annual distribution	-	686,933	-	686,933
Other receipts	<u>150</u>	<u>-</u>	<u>455,722</u>	<u>455,872</u>
Cash available	<u>268,000</u>	<u>1,089,347</u>	<u>457,456</u>	<u>1,814,803</u>
Deduct expenditures, Net of adjustments:				
Salaries and related costs	-	132,008	-	132,008
Materials	-	446	27	473
Other expenses	-	2,290	-	2,290
Transportation	-	85	-	85
Contracted services	-	35	-	35
Equipment	-	19,895	-	19,895
Transfer to other agencies	<u>218,500</u>	<u>-</u>	<u>310,807</u>	<u>529,307</u>
	<u>218,500</u>	<u>154,759</u>	<u>310,834</u>	<u>684,093</u>
Cash, end of year	<u>\$ 49,500</u>	<u>\$ 934,588</u>	<u>\$ 146,622</u>	<u>\$ 1,130,710</u>

Cash available at end of year to be expended in the year 2010, is included as deferred revenues in the combined statement of assets, liabilities and fund equity.

F. Cash

The Agency's cash accounts are mainly held with the Department of the Treasury of the Commonwealth of Puerto Rico, which administers the funds of the government. All cash receipts and disbursements of the Office are made through the Government Development Bank for Puerto Rico which maintains separate codes within the general account of the government to identify each agency.

G. General Fixed Assets

The general fixed assets are recorded as expenditures in the governmental fund types and capitalized at cost in the general fixed assets account group. Donated fixed assets are recorded at their estimated fair value at the time received.

Depreciation is not provided on general fixed assets.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated Absences

The employees of the Agency are entitled to 30 days of regular vacations and 18 days of sick leave annually. Vacation and sick leave can be accumulated up to a maximum of 60 and 90 days, respectively, at the end of the calendar year. The excess over such days shall be paid to the employee as follows:

Vacation - In July 1st of the following calendar year if the excess is not used by the employee before that date.

Sick leave - During January of the following calendar year, but not later than March 31.

Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Upon retirement an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Commonwealth.

Accrued compensated absences include the employer contributions related to liquidation payments of compensated absences. The accruals are recorded in the general long-term debt account group.

I. Insurance

The Agency has insurance coverage for its property and equipment, mainly to provide protection for catastrophic losses. Also, the main officials are covered by various bonds. The Commonwealth's Secretary of the Treasury is in charge of acquiring these insurance coverages.

J. Total (Memorandum Only) Columns

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

K. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements to provide an understanding of changes in the Agency financial position and operations. However, comparative data (i.e., presentation of prior year totals by fund type) have not been presented in each of the statements because their inclusion would make the statements unduly complex and difficult to read.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

NOTE 3 - CASH

The cash accounts of the Agency are held, along with the cash account of the Government of the Commonwealth of Puerto Rico (the Commonwealth), in the Government Development Bank for Puerto Rico (GDB) which is a public corporation of the Commonwealth. No collateral is maintained for cash in GDB.

NOTE 4 - FEDERAL GRANTS RECEIVABLE

Receivables from the Federal Government represent grant awards approved but not yet requested and/or received by the Agency pursuant to Federally funded programs.

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets is presented below:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Equipment	\$5,252,839	\$ 1,561,787	\$ 224,900	\$6,589,726
Motor vehicles	<u>1,681,567</u>	-	-	<u>1,681,567</u>
TOTAL	<u>\$6,934,406</u>	<u>\$ 1,561,787</u>	<u>\$ 224,900</u>	<u>\$8,271,293</u>

NOTE 6 - RETIREMENT PLANS

Defined Benefit Pension Plan

All qualifying permanent employees of the Agency who at the time of employment are 55 years old or less are eligible to participate in the Employees' Retirement System of the Commonwealth of Puerto Rico (the System), a cost sharing multiple-employer defined benefit pension plan created by Act No. 447 of May 15, 1951, as amended.

The System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Death and disability benefits are available to members for occupational and nonoccupational death and disabilities. However, a member must have at least ten (10) years of service to receive nonoccupational disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

NOTE 6 - RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (continued)

Participants aged 55 years or older, and who have completed 25 or more years of credited service, or who are 58 years or older and who have completed at least 10 or more years of creditable service, are entitled to annual benefits, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Pension, as defined. Participants who have not attained 55 years of age will receive 65% of the average compensation of the three years of higher salary services. Those who have attained 55 years of age will receive 75% of such average compensation. Disability retirement benefits are available to participants for occupational and non-occupational disability.

No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Agency is required by the same statute to contribute 9.275% of the participant's salary.

Defined Contribution Plan

On September 24, 1999, the Legislature of the Commonwealth enacted Act, No. 305, which amends Act. No. 447 to establish, among other, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, to either stay in the defined benefit plan or transfer to the new program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually. Disability pensions are

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

NOTE 6 - RETIREMENT PLANS (CONTINUED)

Defined Benefit Pension Plan (continued)

not granted under this Program. For those employees who joined this plan on or after April 1, 1990, the retirement age is reduce from 65 years to 60.

The Agency is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions to the above mentioned plans was approximately \$377,000 and the Agency's contribution for the year ended June 30, 2009 was \$424,000. Total payroll of the Agency was \$5,277,800.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2008 a copy which can be obtained from the Retirement System.

NOTE 7 - COMMITMENTS

Commitments under lease agreements for office facilities expected to be renewed in the normal course of business provide for minimum annual rental payments as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 1,354,489
2011	1,299,693
2012	1,273,818
2013	1,273,818
2014	<u>1,061,515</u>
	<u>\$ 6,263,333</u>

Office rent expense for the year ended June 30, 2009 was \$1,405,162. The Agency also has other facility for which no annual rent is paid.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

NOTE 7 – COMMITMENTS (CONTINUED)

It is expected that lease agreements be renewed in the normal course of business.

NOTE 8 – CONTINGENCIES

The Agency is a party to various legal claims resulting from its operations. As a component of the Commonwealth of Puerto Rico, all legal claims are handled by the Department of Justice and any liability resulting from these claims is covered by a separate fund established by the Commonwealth of Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES</u>
FEMA(Federal Emergency Management Agency)			
Direct Programs:			
PDMC	97.017	EMN2004PC0002	\$ 170,753
Public Assistance Program	97.036	1501DR-PR	23,900
HOME LAND SECURITY OFFICE			
Pass Through:			
Emergency Management Preparedness Grant	97.042	2008EME80052021	3,132,575
"	97.042	2007EME70044	722,116
"	97.042	2006-EM-E60047	109,077
"	97.042	2007EME07010821	405,742
State Homeland Security Grant	97.067	GET54009021	268,997
Homeland Security Grant	16.007	GET70043021	254,524
Urban Train	97.067	2005GET0000061 2009Z0050000061	3,643 76,921
Citizens Corp.	97.067	2006GET60021	269,826
"	97.067	2007GET70043021	129,280
Citizens Corp.	97.067	GET54009021	95,575
"	97.067	2008GET80001021	118,430
State Safety Oversight Program	94.013	2006TU511026021	<u>23,453</u>
			<u>\$ 5,804,812</u>

See notes to schedule of expenditures and federal awards.

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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

NOTE 1 - BASIS OF ACCOUNTING

The supplementary Schedule of Expenditures of Federal Awards (the Schedule) includes the available federal grant activity of the Puerto Rico Emergency and Disaster Management Agency and is presented using the modified accrual basis of accounting. Expenditures are recorded in the accounting period in which the related liability is incurred and encumbrances are not included.

The supplementary Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some schedule amounts may differ from amounts presented in the basic financial statements.

Grant Awards

All federal financial assistance grants received directly from federal agencies and pass-through funds are included as special revenue funds in the combined financial statements of the Agency.

Israel Rolón

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

COMMONWEALTH OF PUERTO RICO PUERTO RICO STATE EMERGENCY AND DISASTER MANAGEMENT AGENCY SAN JUAN, PUERTO RICO

I have audited the financial statements of the **Puerto Rico State Emergency and Disaster Management Agency** (the Agency), as of and for the year ended June 30, 2009, and have issued my report thereon dated December 17, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Office's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I noted significant deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above, which are described in the accounting Schedule of Findings and Questioned Costs as items 9-1 and 9-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed material instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying Schedule of Findings and Questioned Costs as items 9-1, 2, 3, 4, and 5.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ISRAEL ROLON, CPA

December 17, 2009

**Stamp number 2498573 was
affixed to the original of this
report.**



Israel Rolón

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
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SAN JUAN, PUERTO RICO**

Compliance

I was engaged to audit the compliance of the **Puerto Rico State Emergency and Disaster Management Agency** (the Agency), with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal program for the year ended June 30, 2009. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the Agency's management. My responsibility is to express an opinion on the Agency's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations". Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Office's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Office's compliance with those requirements.

As described in items 09-1, 2, 3, 4 and 5 of the accompanying Schedule of Findings and Questioned Costs, I was unable to obtain sufficient documentation supporting the compliance of the Agency regarding reporting, cash management, allowable costs, availability, equipment management and subrecipient monitoring; that are applicable to its major federal program. Compliance with such requirements is necessary for the Agency to comply with the requirements applicable to its program.

Because of the noncompliance effects discussed in the preceding paragraph, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the

compliance with the requirements referred to above that are applicable to its major federal program.

Internal Control Over Compliance

The management of the Puerto Rico State Emergency and Disaster Management Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Office's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Office's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I noted certain deficiencies in internal control over compliance that I considered to be material weaknesses, as defined above. Those deficiencies are described in the accompanying Schedule of Findings and Questions Costs as items 9-1, 2, 3, 4 and 5.

This report is intended solely for the information and use of management, other within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ISRAEL ROLON, CPA

December 17, 2009

Stamp number 2498574 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
DISASTER MANAGEMENT AGENCY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

09-1 CONDITION (CONT.)

- There was no detailed classification of expenditures in the federal expenditure ledgers to provide for adequate reporting.
- Some disbursements were posted in the wrong expenditure ledger and corrections made between funds.
- The property ledgers were not updated and the balance at the end of the fiscal year was still not reconciled.

CONTEXT

The financial data obtained for the year ended June 30, 2009 did not include May and June transactions or accounts payable. Transactions for those months and accounts payable were obtained from subsequent months paid voucher lists and estimated payroll costs summaries.

EFFECT

Financial data may be incomplete, inaccurate or unavailable.

CAUSE

Procedures in place are not always followed, or not reviewed by management periodically to ascertain they are being followed. Lack of training on the new accounting system.

RECOMMENDATION

Finance employees are required in the division and tasks distributed among them to assure that all accounting information is gathered, recorded and reconciled for the period of occurrence. Personnel should be taught on the new accounting system features and reports and supervised to ascertain that they are working efficiently.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management accepts the finding, but needs authorization to contract employees or other external help. Presently, two employees were retained to reconcile cash balances, expenditures and other data.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

09-2 CRITERIA

Circular A-133 requires auditees to prepare complete financial statements. The external auditor is precluded from preparing such information to maintain his independence.

CONDITION

The Agency did not prepare periodic internal financial statements for management information and review.

CONTEXT

Since there are no periodic internal financial statements, the year end financial statements data was obtained manually from different EDP sources.

EFFECT

Management of the Agency does not have timely information to make decisions on the timely use of grant funds.

CAUSE

Management and other personnel were not given adequate training or do not have the technical knowledge to prepare the financial statements.

RECOMMENDATION

Management needs to receive the necessary training on the new accounting system features to be able to prepare periodic financial data.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

Management plans to contract professional training services to learn how to properly use new capabilities of accounting system, including financial statement preparation.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN OMB A-133 SECTION 510(a)

09-3 CRITERIA

Monitoring of subrecipients is required by OMB Circular A-133.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

09-3 CONDITION

The monitoring procedures for funds received by subrecipients were not reviewed during the period by an internal auditor.

CONTEXT

In reviewing the monitoring procedures in place I believe that an internal auditor is more prepared to perform the work involved.

EFFECT

Subrecipients of federal awards may be in noncompliance with federal program requirements.

CAUSE

There are no procedures to inform subrecipients of audit requirements, reviewing subrecipients reports, performing site visits, identifying weaknesses or noncompliance, or withholding further funding, if necessary.

RECOMMENDATION

Monitoring procedures established should be reviewed by the internal auditor assigned to periodically perform tests of adequacy.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management plans to hire an internal auditor in the year 2010 to develop an audit program and to perform tests periodically.

09-4 CRITERIA

An adequate system of internal controls is needed to achieve compliance with federal programs.

CONDITION

The agency does not have an internal auditor to review internal compliance with accounting controls, including subrecipients' compliance with requirements of pass-through funds received.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

09-4 CONTEXT

In reviewing the internal controls in place, it was noted that there was no personnel awareness of the importance of control procedures.

EFFECT

Cash accounts are not balanced and expenditures are posted to the wrong accounts.

CAUSE

There is not sufficient supervision to assure that all procedures are being followed.

RECOMMENDATION

Create an internal audit department to oversee compliance with internal controls including subrecipients use of funds received.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management intends to fill the position as soon as approval is obtained.

09-5 CRITERIA

OMB Circular A-133 requires, among other, that proper records be maintained of all property acquired with federal awards.

CONDITION

The beginning balance of property and the year 2009 additions were not in balance with the property subsidiary ledgers at the end of year.

CONTEXT

The inventory balance of equipment showed a higher amount than the sum of additions to the beginning balance at July 1, 2008.

EFFECT

Equipment acquired may not be numbered, units may have been duplicated, or not included in the expenditures ledger.

**COMMONWEALTH OF PUERTO RICO
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DISASTER MANAGEMENT AGENCY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

09-5 **CAUSE**

New personnel assigned to the task was not adequately trained.

RECOMMENDATION

The subsidiary ledgers must be reconciled on a timely basis.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE
ACTIONS**

Management shall develop internal procedures to follow up on personnel assigned to reconcile the subsidiary ledgers for the period ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Findings

08-1 CRITERIA

Circular A-133 provides that allowable costs must be reasonable and necessary for the performance of federal awards.

CONDITION

No formal cost allocation plan has been prepared to support the distribution of certain costs among local and federal funds.

RECOMMENDATION

A formal cost allocation plan should be prepared and annually revised to consider new funds or activities. Training programs and management review of supporting documents of allowable costs should be added to procedures.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Professional services were contracted and a plan was developed but not completed for use at this time.

08-2 CRITERIA

Circular A-133 requires auditees to prepare complete financial statements.

CONDITION

The Agency does not prepare periodic or annual internal financial statements for management information and review.

RECOMMENDATION

Management needs to contract services for financial statements preparation.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management contracted services for the development of a new accounting system which facilitates financial statements preparation. Although the new accounting system was in operation during fiscal period 2009, no internal financial statements were prepared.

**COMMONWEALTH OF PUERTO RICO
PUERTO RICO STATE EMERGENCY AND
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Findings

08-3

CRITERIA

OMB Circular A-133 requires monitoring of subrecipients by competent personnel.

CONDITION

The monitoring procedures for funds received by subrecipients were not reviewed during the period by an internal auditor.

RECOMMENDATION

Monitoring procedures established should be reviewed by the internal auditor assigned to periodically perform tests of adequacy.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The situation shall be corrected when approval for an internal auditor is obtained in 2010 to develop an audit program and perform tests periodically.

08-4

CRITERIA

An adequate system of internal controls is needed to achieve compliance with federal programs.

CONDITION

The agency does not have an internal auditor to monitor, among other, subrecipients' compliance with requirements of pass-through funds received.

RECOMMENDATION

Create an internal audit department to oversee compliance with internal controls including subrecipients use of funds received.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The position was requested in fiscal year 2009, but still no recruitment has occurred.