

***Puerto Rico Emergency Management  
and Disaster Administration Agency***

*Statement of Governmental Funds Revenue and  
Expenditures (Cash Basis) and Required  
Supplementary Information and Other Supplementary  
Information for the Year Ended June 30, 2011, and  
Independent Auditors' Report Thereon with Reports  
Required Under OMB Circular A-133*

“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.

  
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Frank Vázquez Madera  
Director de Finanzas

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Statement of Governmental Funds Revenue and Expenditures (Cash Basis), Required Supplementary***  
***Information and Other Supplementary Information for the Year Ended June 30, 2011***

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Certified Public Accountants, Tax & Business Advisors

### **Independent Auditors' Report**

Puerto Rico Emergency Management and Disaster Administration Agency  
San Juan, Puerto Rico

We have audited the accompanying Statement of Governmental Funds Revenue and Expenditures (Cash Basis) of the Puerto Rico Emergency Management and Disaster Administration Agency (the Agency), an agency of the Commonwealth of Puerto Rico, for the year ended June 30, 2011. This financial statement is the responsibility of the Agency's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement has been prepared on cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The financial statement of the Agency is intended to present the Statement of Governmental Funds Revenue and Expenditures (Cash Basis) of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the Statement of Governmental Funds Revenue and Expenditures (Cash Basis) of the Commonwealth of Puerto Rico as of June 30, 2011 and for the year ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statement referred above presents fairly, in all material respects, the respective cash basis of the Statement of Governmental Funds Revenue and Expenditures of the Agency for the year ended June 30, 2011 in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2011, on our consideration of the Agency'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 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 considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 8, respectively, are not a required part of the financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Statement of Governmental Funds Revenue and Expenditures of the Puerto Rico Emergency and Disaster Management Agency. 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 Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statement of the Agency. The combining and individual nonmajor fund financial statement and the schedule of expenditures of federal awards have been subject to the auditing procedures applied in the audit of the Statement of Governmental Funds Revenue and Expenditures and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

*Pauss PSC*

December 27, 2011

Stamp No. E16667 was affixed  
to the original of this report  
License No. 88 Exp. December 1, 2014.



***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Management's Discussion and Analysis***  
***Year Ended June 30, 2011***

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The Puerto Rico Emergency Management and Disaster Administration Agency (the Agency) management provides this overview and analysis of the cash receipts and cash disbursements of the Agency for the fiscal year ended June 30, 2011, within the limitation of the Agency's cash basis of accounting. We encourage readers to consider the information presented here along with the financial statement taken as a whole.

**FINANCIAL HIGHLIGHTS:**

- The Agency's total cash disbursements exceeded total cash receipts by (\$674,112).
- The Agency's General Fund total cash disbursements exceeded cash receipts, on the cash basis of accounting, by (\$137,240).

**USING THIS REPORT**

This report is presented in a format consistent with the presentation of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Agency's cash basis of accounting.

**REPORT COMPONENTS:**

This report consists of four parts as follows:

**Statement of Governmental Funds Revenue and Expenditures (Cash Basis):** This financial statement provides information regarding the cash receipts and cash disbursements of the Agency for the year ended June 30, 2011.

**Notes to the Financial Statement:** The notes to the financial statement are an integral part of the Statement of Governmental Funds Revenue and Expenditures (Cash Basis) and provide expanded explanation and detail regarding the information reported in the statement.

**Required Supplementary Information:** This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule of Revenue and Expenditures (Cash Basis) represent financial information required to be presented by accounting principles generally accepted in the United States of America. Such information provides users of this report with additional data that supplements the statement and notes.

**BASIS OF ACCOUNTING:**

The Agency has elected to present its financial statement on a cash basis of accounting. This cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenue and expenses. Under the Agency's cash basis of accounting, revenue and expenses are recorded when they result from cash transactions. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Management's Discussion and Analysis***  
***Year Ended June 30, 2011***

**THE FUND FINANCIAL STATEMENT:**

The Agency basic services are reported in governmental funds, which focus on how money flows into and out of those funds. The governmental fund provides a detailed short-term view of the Agency's general government operations, the basic services it provides and helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency maintains seventeen individual state governmental funds and thirteen individual federal governmental funds. The Agency considers the General Fund (F111, F115 and F702) and the Special Revenue - Emergency Fund, (F289) Emergency Management Programs Fund, and the Citizen Corp./Urban Train Fund to be its significant or major governmental funds.

**A FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS:**

For the year ended June 30, 2011, on the cash basis of accounting, the Agency reported revenue of \$12,976,444 and expenditures of \$13,650,556 resulting in a deficit of (\$674,112). The following table summarizes the results of operations between fiscal years ended June 30, 2011 and 2010:

	2011	2010	Change	
			Dollars	%
<b>Cash Receipts:</b>				
Legislative appropriations	\$ 8,098,799	6,401,000	1,697,799	27%
Federal grants	4,243,015	5,846,509	(1,603,494)	-27%
Other	634,630	598,961	35,669	6%
<b>Total cash receipts</b>	<b>12,976,444</b>	<b>12,846,470</b>	<b>129,974</b>	<b>1%</b>
<b>Cash Disbursements:</b>				
Salaries and fringe benefits	6,248,866	6,059,952	188,914	3%
Facilities and services	694,750	723,061	(28,311)	-4%
Contracted services	2,729,191	2,170,910	558,281	26%
Contributions, subscriptions and donations	1,379,936	254,169	1,125,767	443%
Transportation	63,867	60,513	3,354	6%
Professional services	951,642	1,409,762	(458,120)	-32%
Materials	306,055	301,288	4,767	2%
Equipment	689,233	625,375	63,858	10%
Advertising	369,257	365,198	4,059	1%
Other expenses	217,759	390,160	(172,401)	-44%
<b>Total cash disbursements</b>	<b>13,650,556</b>	<b>12,360,388</b>	<b>1,290,168</b>	<b>10%</b>
<b>Excess of cash disbursements over cash receipts</b>	<b>\$ (674,112)</b>	<b>486,082</b>	<b>(1,160,194)</b>	<b>-239%</b>

**YEAR ENDED JUNE 30, 2011 vs. JUNE 30, 2010:**

In overall, the Agency's total cash receipts increased by approximately \$130 thousand or 1% from prior year. Legislative appropriations increased due to \$1.3 million received to be contributed to the municipalities and federal grants decreased mainly due to a reduction in budget of \$635,000 and delays in the reimbursements of the pass-through entity.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Management's Discussion and Analysis***  
***Year Ended June 30, 2011***

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Total cash disbursements increased by \$1,290,168 or 10%. Such increase is the net result of the following:

1. Increase in salaries and fringe benefits of \$188,914 responds to the hiring of eight new employees during fiscal year 2011.
2. Contracted services increased by \$558,281 because the Agency requested the federal government the allocation of funds originally approved for professional services to be used for operating expenses at the eleven regions of the Agency.
3. Contributions, subscriptions and donations increased by \$1,125,767 due to emergency funds received by the Agency to be distributed to municipalities. The Municipality of Orocovis received \$1 million and the Municipality of Utuado received \$260,541.
4. Other expenses decreased by \$172,401 mostly because during the previous year there were some contributions made to different municipalities for the purchase of emergency equipment.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

Over the course of the year, the Agency revised the General Fund budget at various times. The final amended budget, however, was consistent with the original budget.

For the year ended June 30, 2011, on the cash basis of accounting, the Agency's General Fund reported revenue of \$6,152,000 and expenditures of \$6,013,143 resulting in an excess of revenues over expenditures of \$138,857.

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***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Management's Discussion and Analysis***  
***Year Ended June 30, 2011***

The budgetary comparison schedule of Revenue and Expenditures (Cash Basis) for the General Fund (Fund 111 and 115) is as follows:

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue:				
Legislative appropriations	\$ 6,152,000	6,152,000	6,152,000	—
Expenditures:				
Salaries and fringe benefits	3,572,000	3,563,836	3,563,836	—
Utilities	578,000	577,000	599,947	(22,947)
Contracted services	1,559,000	1,661,622	1,640,473	21,149
Donations and subsidies	363,000	—	—	—
Transportation	10,000	16,220	17,296	(1,076)
Professional services	22,000	142,543	116,580	25,963
Other	7,000	112,560	9,712	102,848
Materials	19,000	61,488	48,568	12,920
Equipment	22,000	16,731	16,731	—
Total expenditures	<u>6,152,000</u>	<u>6,152,000</u>	<u>6,013,143</u>	<u>138,857</u>
Excess of revenue over expenditures	\$ <u>—</u>	<u>—</u>	<u>138,857</u>	<u>(138,857)</u>

**CONTACTING THE AGENCY FINANCIAL MANAGEMENT:**

This report is designed to provide general overview of the Agency's financial information and to demonstrate the Agency accountability for the money it receives. Also, this report is intended for the information and use of management, the body or individuals charged with governance, others within the entity, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass through entities and is not intended to be and should not be used by anyone other than these specified parties. If you have questions about this report or need additional information, contact the Agency office at P.O. Box 9066597, San Juan, Puerto Rico 00906-6597 or telephone at (787) 724-0124.

**Puerto Rico Emergency Management and Disaster Administration Agency**  
**Statement of Governmental Funds Revenue and Expenditures (Cash Basis)**  
**Year Ended June 30, 2011**

	Special Revenue Funds					Total
	General Fund	Emergency Fund	Emergency Management Programs Fund	Citizen Corp and Urban Train Programs Fund	Other Governmental Funds	
<b>Cash Receipts:</b>						
Legislative appropriations	\$ 6,547,438	1,371,924	—	—	179,437	8,098,799
Federal grants	—	—	3,826,331	361,700	54,984	4,243,015
Other	616,302	18,328	—	—	—	634,630
<b>Total cash receipts</b>	<b>7,163,740</b>	<b>1,390,252</b>	<b>3,826,331</b>	<b>361,700</b>	<b>234,421</b>	<b>12,976,444</b>
<b>Cash Disbursements:</b>						
Salaries and fringe benefits	4,269,245	—	1,773,666	75,105	130,850	6,248,866
Facilities and services	694,750	—	—	—	—	694,750
Contracted services	1,978,150	12,315	738,726	—	—	2,729,191
Contributions, subscriptions and donations	—	1,305,488	—	24,736	49,712	1,379,936
Transportation	22,148	3,000	34,412	3,827	480	63,867
Professional services	130,334	26,500	733,778	55,815	5,215	951,642
Other expenses	36,581	12,917	149,858	6,308	12,095	217,759
Materials	62,034	11,706	126,160	7,419	98,736	306,055
Equipment	107,738	—	372,380	209,115	—	689,233
Advertising	—	—	279,257	90,000	—	369,257
<b>Total cash disbursements</b>	<b>7,300,980</b>	<b>1,371,926</b>	<b>4,208,237</b>	<b>472,325</b>	<b>297,088</b>	<b>13,650,556</b>
<b>Excess (deficit) of cash receipts over cash disbursements</b>	<b>\$ (137,240)</b>	<b>18,326</b>	<b>(381,906)</b>	<b>(110,625)</b>	<b>(62,667)</b>	<b>(674,112)</b>

See notes to financial statement (cash basis).

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Budgetary Comparison Schedule of Revenue and Expenditures (Cash Basis) – General Fund***  
***Year Ended June 30, 2011***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenue:</b>				
Legislative appropriations	\$ 6,152,000	6,152,000	6,152,000	—
<b>Expenditures:</b>				
Administration	321,000	154,454	154,454	—
Emergency operations	5,732,000	5,905,040	5,766,183	138,857
Emergency 911	99,000	92,506	92,506	—
<b>Total expenditures</b>	<b>6,152,000</b>	<b>6,152,000</b>	<b>6,013,143</b>	<b>138,857</b>
<b>Excess of revenue over expenditures</b>	<b>\$ —</b>	<b>—</b>	<b>138,857</b>	<b>138,857</b>

See notes to financial statement (cash basis).

***Puerto Rico Emergency Management and Disaster Administration Agency***  
*Notes to Financial Statement*  
*Year Ended June 30, 2011*

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization*** – Puerto Rico Emergency Management and Disaster Administration Agency (the Agency) is a governmental organization created by Law No. 211 of August 2, 1999, subject to the requirements of Law No. 93-288 and the Reorganization Plan No. 2 of December 9, 1993. The purpose of the Act is to establish the government's public policy in relation with the administration and management of emergency situations, which is to ensure that, as a country, we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards. This Agency is an operational component of the Public Safety Commission which also covers the Puerto Rico Police Department, the Puerto Rico Firefighters Corps and the Puerto Rico National Guard. The Agency is headed by a Chief appointed by the Governor of Puerto Rico with the advice and consent of the Senate of the Commonwealth of Puerto Rico.

***Basis of Accounting*** – The accompanying financial statement has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. All transactions relating to the Agency participation in the fund are recognized as either cash receipts or disbursements. Noncash transactions are not recognized in the statement.

***Basis of Presentation*** – The Agency funds are, as required by law, under the custody and control of the Secretary of the Department of Treasury of the Commonwealth of Puerto Rico and is also accounted for in the Central Government Accounting System. The Agency prepares its financial statement for the General Operational Fund and other funds on the cash basis method. A Statement of Net Assets has not been presented because, as of June 30, 2011, the Agency had no available cash under its custody.

The General Fund is the primary operating fund of the Agency and is always classified as a major fund. It is used to account for all activities except those that are required to be accounted for in other funds.

***Use of Estimates*** – The preparation of financial statement in conformity with the other comprehensive basis of accounting (OCBOA) requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. Actual results could differ from those estimates.

**2. BUDGET AND BUDGETARY ACCOUNTING**

The Agency budget system is its primary control over expenditures. Budgets are prepared annually and revised semiannually as required. The budget is prepared on the same cash basis of accounting as applied to the governmental funds in the Statement of Governmental Funds Revenue and Expenditures. Budgetary control procedures require 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 carry over to the next fiscal year 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, contracts) are considered expenditures when paid.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Notes to Financial Statement***  
***Year Ended June 30, 2011***

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**3. BUDGET/CASH RECONCILIATION**

The following schedule present comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present the Statement of Governmental Funds Revenue and Expenditures (Cash Basis), a reconciliation of entity differences in deficit of cash receipts over cash disbursements for the year ended June 30, 2011 is presented below for the general fund:

Excess of revenue over expenditures non-GAAP budgetary basis	\$ 138,857
Available funds from fiscal year 2011 at year end	(138,857)
Disbursements from prior year paid in current year	(595,459)
Cash receipts from prior years	595,459
Emergency 911 cash receipts (Fund 702)	616,302
Emergency 911 cash disbursements (Fund 702)	<u>(753,542)</u>
Deficit of cash receipts over cash disbursements as per Statement of Governmental Funds Revenues and Expenditures (Cash Basis)	\$ <u><u>(137,240)</u></u>

**4. EMPLOYEES RETIREMENT PLAN**

The Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the System), created pursuant to Act No. 447 dated May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as, a component unit of the Commonwealth of Puerto Rico. All regular employees of the Agency who are 55 years of age or less at the date of employment are eligible to become members of the System as a condition to their employment. Plan members are eligible for a retirement annuity upon reaching the following age:

50 with 25 years of credited service  
58 with 10 years of credited service

The System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's Legislature. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by the System. The annuity, for which a plan member is eligible, is limited to a minimum of \$400 per month and a maximum of 75% of the average compensation.

Act No. 1 of 1990, made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to one and one-half percent of the average compensation for all years of creditable service, a decrease in the maximum disability and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit annuity for participants who have completed 30 years of creditable service.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Notes to Financial Statement***  
***Year Ended June 30, 2011***

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On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the System as of December 31, 1999, had the option to stay in the defined plan or transfer to System 2000. Employees joining the Agency on or after January 1, 2000, are only allowed to become members of System 2000. System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

**Funding Policy**

Contribution requirements are established by law and are as follows:

Commonwealth Employees:	9.275%	of gross salary
Hired on or before March 31, 1990	8.275%	of gross salary over \$6,600
Hired on or after April 1, 1990	8.275%	of gross salary

Total contributions during the year ended June 30, 2011 amounted to \$348,804 and \$306,767 for the employer and employee portions, respectively.

Total covered payroll for the year ended June 30, 2011 was approximately \$3.8 million. For the fiscal year ended June 30, 2011, the Agency contributed 100% of required contributions. Additional information on the System is provided in its financial statement for the year ended June 30, 2011, a copy of which can be obtained from Retirement System Administration, P.O. Box 42003, San Juan, Puerto Rico 00949.

**5. CONTINGENCIES**

**Grant Program Involvement**

In the normal course of operations, the Agency participates in various federal or state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agencies, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liability or reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
*Notes to Financial Statement*  
*Year Ended June 30, 2011*

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**Litigation**

The Agency is involved in litigation arising in the normal course of business. The final outcome of these matters and their potential financial impact cannot be determined at this time. Disbursements, if any, related to the settlement of such litigation will be recognized in the Statement of Cash Receipts and Cash Disbursements for the General Operational Fund of the Agency at the time the payment is made.

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***Puerto Rico Emergency Management and Disaster Administration Agency***  
*Schedule of Expenditures of Federal Awards – Cash Basis*  
*For the Year Ended June 30, 2011*

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Emergency Management Agency			
Pre-Disaster Mitigation Competitive Grant	97.017		\$ <u>88,258</u>
U.S. Department of Homeland Security: Pass-through program from State Traffic Safety Commission			
Emergency Management Preparedness Grants	97.042	2010-000018	<u>4,208,237</u>
Urban Train 2009	97.067	2004-000049	7,227
Urban Train 2010	97.067	2004-000049	72,524
Citizens Corp. 2008	97.067	2007-000026	22,320
Citizens Corp. 2009	97.067	2008-000026	126,295
State Homeland Security Grant Program 2009	97.067	2010-000018	<u>243,959</u>
			<u>472,325</u>
Earthquake Consortium 2009	97.082	EMN-2009-GR-0203	29,392
Total expenditures of federal awards			\$ <u><u>4,798,212</u></u>

See notes to schedule of expenditures of federal awards.

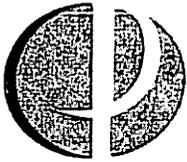
***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Notes to Schedule of Expenditures of Federal Awards – Cash Basis***  
***For the Year Ended June 30, 2011***

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***Basis of Presentation*** – The supplementary Schedule of Expenditures of Federal Awards has been prepared using the cash basis method of accounting. It is drawn primarily from the Agency’s internal accounting records, which are the basis for the Statement of Governmental Funds Revenue and Expenditures (the Statement). As per the Schedule of Federal Awards, the Agency received reimbursements from federal grants which amounted to \$4,798,212 for the year ended June 30, 2011. These reimbursements were used for payment of expenditures paid by the Commonwealth of Puerto Rico on behalf of the Agency and are presented in the accompanying Statement of Governmental Funds Revenue and Expenditures.

***Catalog of Federal Domestic Assistance (CFDA) Number*** – The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the U.S. Office of Management and Budget’s Catalogue of Federal Domestic Assistance.

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**PARISSI P.S.C.**  
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**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**

Puerto Rico Emergency Management and Disaster Administration Agency  
San Juan, Puerto Rico

We have audited the Statement of Governmental Funds Revenue and Expenditures of Puerto Rico Emergency Management and Disaster Administration Agency (the Agency) for the year ended June 30, 2011, and have issued our report thereon dated December 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As described in Note 1, the financial statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that required to be reported under Government Auditing Standards.

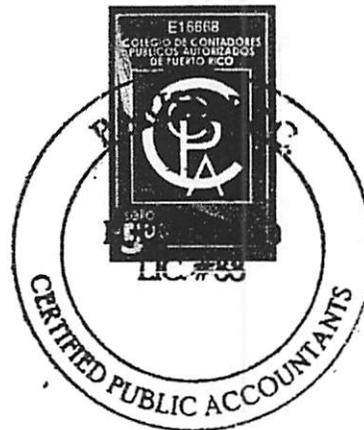
We noted certain matters that we reported to management of the Agency in a separate letter date December 27, 2011.

This report is intended solely for the information and use of management, the Commonwealth of Puerto Rico, federal awarding agencies and pass-through entities and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

December 27, 2011



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**PARISSI P.S.C.**

Certified Public Accountants, Tax & Business Advisors

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Puerto Rico Emergency Management and Disaster Administration Agency  
San Juan, Puerto Rico

**Compliance**

We have audited the Agency's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Agency's major federal programs are 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 grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item SA 2011-02 in Part III.

**Internal Control Over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 2011-01 in Part III to be a material weakness.

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.

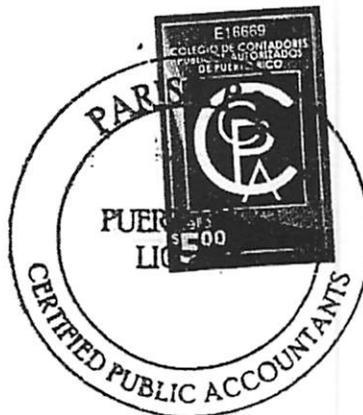
The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Commonwealth of Puerto Rico, federal awarding agencies, and pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

December 27, 2011

*Raissa PSC*

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***Puerto Rico Emergency Management and Disaster Administration Agency***  
*Schedule of Findings and Questioned Costs*  
*Year Ended June 30, 2011*

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**Part I - Summary of Auditors' Results**

**Financial Statements**

- Type of auditors' report issued: Unqualified
- Internal control over financial reporting:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  No
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

- Type of auditors' report issued on compliance for major programs: Unqualified
- Internal control over major programs:
  - Material weakness (es) identified?  Yes  No
  - Significant deficiency (ies) identified that are not considered to be material weaknesses?  Yes  No
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  Yes  No

▪ Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program Grantor and Program Title</u>
	US Department of Homeland Security:
97.042	Emergency Management Preparedness Grant
97.067	Homeland Security Grant Programs

- Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000
- Auditee qualified as low-risk auditee?  Yes  No

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Schedule of Findings and Questioned Costs***  
***Year Ended June 30, 2011***

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**Part II - Financial Statement Findings Section**

Nothing to report.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
*Schedule of Findings and Questioned Costs*  
*Year Ended June 30, 2011*

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**PART III: Federal Award Findings and Questioned Costs Section**

**Finding SA 2011-01                      No Formal Structure of Internal Controls**

***Federal Program*** – Emergency Management Preparedness Grants

***Condition*** – During our audit, we noted that there is no formal documentation of the internal controls structure either written procedures to assure the compliance of federal requirements within the Agency.

***Criteria*** – The A-102 Common Rule requires that non-federal entities receiving federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

***Cause*** – This situation occurs because there is a lack of personnel as a result of the effect of Law No.7 which provided voluntary retirement to governmental employees. In addition, we noted that current personnel lack adequate training in relation with the management of federal funds.

***Effect*** – This situation might lead to errors and/or misuse of federal funds. Financial data may be incomplete, inaccurate and/or unavailable.

***Questioned Cost*** – None

***Recommendation*** – The Agency should consider providing adequate training to current staff related to the management of federal funds and to the importance of the establishment of a formal policy and procedures of internal controls as this will lead to provide reasonable assurance for compliance with federal requirements.

The objectives of internal control pertaining to the compliance requirements for federal programs (Internal Control Over Federal Programs), as found in § .105 of OMB Circular A-133, are as follows:

1. Transactions are properly recorded and accounted for to:
  - (i) Permit the preparation of reliable financial statements and Federal reports;
  - (ii) Maintain accountability over assets; and
  - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
2. Transactions are executed in compliance with:
  - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
  - (ii) Any other laws and regulations that are identified in the compliance supplements; and
3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Schedule of Findings and Questioned Costs***  
***Year Ended June 30, 2011***

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***Corrective Action Plan*** – Management will develop manuals of policies and procedures related with internal controls in order to ensure compliance with federal laws, regulations, and program compliance requirements. Also management is evaluating a proposal from an external consultant to comply with this federal requirement. The personnel will be trained in relation with the management of federal funds. The person responsible is the Executive Sub-Director and the completion date will be June 30, 2012.

**Finding SA 2011-02                      Capital Asset Ledger**

***Federal Programs*** – Emergency Management Preparedness Grants and Homeland Security Grant Programs

***Compliance Requirement*** – Equipment and real property management.

***Condition*** – The Agency does not maintain an accurate and complete property subsidiary. While performing the audit, we noted that there were property and equipment disbursements being expensed. When we requested a detail of capital assets, management declared that they were not sure as to the correctness of the information included within the subsidiary of property.

***Criteria*** – Sound internal control practices require maintaining accurate and complete accounting records, supported by the required information. This is achieved through the periodical taking of physical inventories of assets and write-off of the disposals from the accounting records. OMB Circular A-133 requirements state that entities receiving federal funds must perform physical inventories of capital assets.

***Cause*** – This situation occurred because the Agency does not maintain updated records and does not perform adequate physical inventory procedures of its capital assets.

***Effect*** – This situation exposes the Agency to the loss of assets due to theft, or unauthorized use or disposition because there is no accurate accountability for assets that appear in the subsidiary ledgers. Furthermore, it may increase the cost of property insurance for payment of insurance over capital assets that no longer exist. There could be recorded capital assets that do not exist or belong to Agency or existing capital assets belonging to the Agency but that remain unrecorded.

***Questioned Cost*** – None

***Recommendation*** – The Agency should perform periodic inventory of property to update its subsidiary ledgers. Lost assets should be accounted for. Also, it is recommended to perform the inventory of capital assets at least once every year. Properties should be properly identified.

***Corrective Action Plan*** – The Agency performed a physical inventory of capital assets during December 2010. Management is reconciling the subsidiary of property with the physical inventory in order to make the necessary adjustments. The Agency named a Property Administrator to improve internal control in the area, and acquired a software to ensure the compliance with state and federal requirements. The person responsible is the Executive Sub-Director and the completion date will December 31, 2012.

***Puerto Rico Emergency Management and Disaster Administration Agency***  
***Schedule of Findings and Questioned Costs***  
***Year Ended June 30, 2011***

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5. Transactions are executed in compliance with:

(iii) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and

(iv) Any other laws and regulations that are identified in the compliance supplements; and

6. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

***Current Status*** – The discussion for Finding SA 2011-1 also applies to this Finding.

**Finding SA 2010-2**

**Capital Asset Ledger**

***Federal Program*** – Emergency Management Preparedness Grants

***Compliance Requirement*** – Equipment and real property management.

***Condition*** – The Agency does not maintain an accurate and complete property subsidiary. While performing the audit, we noted that there were property and equipment disbursements being expensed. When we requested a detail of capital assets, management declared that they were not sure as to the correctness of the information included within the subsidiary of property.

***Recommendation*** – The Agency should perform periodic inventory of property to update its subsidiary ledgers. Lost assets should be accounted for. Also, it is recommended to perform the inventory of capital assets at least once every year. Properties should be properly identified.

***Corrective Action Plan*** – The discussion for Finding SA 2011-2 also applies to this Finding.