

**NATIONAL GUARD OF THE
COMMONWEALTH OF PUERTO RICO**

**SINGLE AUDIT REPORT
(With Independent Auditors' Report Thereon)**

YEAR ENDED JUNE 30, 2011

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

MG Antonio J. Vicens
Adjutant General
National Guard of the Commonwealth of Puerto Rico

We have audited the accompanying Statement of Receipts and Disbursements (the Statement) of the **National Guard of the Commonwealth of Puerto Rico (the PRNG)**, for the year ended June 30, 2011 that have been prepared on a cash receipts and disbursement basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This Statement is the responsibility of the PRNG's management. Our responsibility is to express an opinion on this 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 required that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2012, on our consideration of the PRNG's internal control over financial reporting and on our tests of its compliance with certain provision 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.

Our audit was conducted for the purpose of forming an opinion on the PRNG's Statement of Receipts and Disbursement 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 Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the Statement of the PRNG. Such information and the Schedule of Expenditure of Federal Awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the Statement. This information have been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures and other records used to prepare the Statement itself, and other additional procedures in accordance with auditing standards generally accepted of the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Howath Viley & Co. PSC

March 20, 2012

Stamp Number 2638791 was
affixed to the original of this
report.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF RECEIPTS AND DISBURSEMENTS

YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Federal Cooperative Agreements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
State sources	\$ 3,345,928	\$ -	\$ 19,822,056	\$ 23,167,984
Federal sources	<u>-</u>	<u>13,092,067</u>	<u>-</u>	<u>13,092,067</u>
Total cash receipts	<u>3,345,928</u>	<u>13,092,067</u>	<u>19,822,056</u>	<u>36,260,051</u>
Cash disbursements:				
Administration and direction	185,710	-	800,874	986,584
Security and conservation of military facilities	3,005,928	-	2,392,839	5,398,767
State guard	116,383	-	63,619	180,002
Auxiliary services of administration	1,339,268	-	-	1,339,268
Special programs	-	-	15,267,243	15,267,243
Operating and maintenance projects	<u>-</u>	<u>15,009,554</u>	<u>-</u>	<u>15,009,554</u>
Total cash disbursements	<u>4,647,289</u>	<u>15,009,554</u>	<u>18,524,575</u>	<u>38,181,418</u>
Excess (deficiency) of cash receipts over cash disbursements	<u><u>\$(1,301,361)</u></u>	<u><u>\$(1,917,487)</u></u>	<u><u>\$ 1,297,481</u></u>	<u><u>\$(1,921,367)</u></u>

See accompanying notes to the Statement of Receipt and Disbursements.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Guard of the Commonwealth of Puerto Rico (PRNG), is an agency of the Commonwealth of Puerto Rico, was created by the Law No. 28 of 1917, which was subsequently amended by Law No. 62 of June 23, 1969, as amended. The Law established the PRNG as the duly authorized governmental agency to protect the lives and properties of the Puerto Rico residents, to preserve the peace, the order and the public security in emergency situations caused by natural disasters or public riots. The PRNG maintains 33 armories, and is present in 30 communities. The PRNG, like the National Guards in all 50 states of the United States of America, is a hybrid organization. National Guards are ordinarily under the control of the State (or, in the case of Puerto Rico, of the Commonwealth) officials, but are organized pursuant to federal statute, and in war time or other emergencies, guard units may be brought under Federal control. The Puerto Rico National Guard and Reserve units support the US Army South (USARSO) many multilateral exercises and programs. It is through this integration of the USA Active Army, National Guard, and Reserves that USARSO can maximize resources to carry out missions.

As part of its programs, the PRNG established the Youth Programs to provide a highly disciplined atmosphere fostering academics, leadership development, physical training, and personal growth to educate and train unemployed high school dropout youths and make them productive members of the community. The PRNG also supports communities using their specialized skills. Medical units provide preventive health care, education, and immunizations in low-income neighborhoods. Guard members serve drug and law enforcement agencies through its Counter Drug program, resulting in the confiscation of millions of dollars in illegal drugs. The PRNG is the only organization in the US conducting all three National Guard Bureau sponsored youth programs: STARBASE, CREANDO, and Challenge. The PRNG also commenced the State Partnership Program with the Republic of Honduras. In addition, members of the National Guard were deployed for war conflicts in Iraq and Afghanistan.

Financial Reporting Entity

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

The financial information included in the accompanying Statement of cash receipts and disbursements was obtained from the Puerto Rico Treasury Department's Integrated Financial Accounting System (PRIFAS) and is issued solely to comply with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1986. P.L.104-156 and for the information of the Department federal awarding agencies and/or pass-through entities, regulators, management and those charged with the governance.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity (Continued)

The PRNG's accompanying financial statements have been prepared in accordance with a cash receipts and disbursement basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when cash is received rather than earned, and expenditures are recognized when the related corresponding voucher is prepared and recorded in PRIFAS rather than when the obligation is incurred. Accordingly, the method of presentation is not intended to present results of operations in conformity with accounting principles generally accepted in the United States of America.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund. No capital assets or related depreciation is recorded in the PRNG's financial statements. No long-term debt and accrued compensated absence are reported in the financial statements. Compensated absences resulting from cash transactions are reported as cash disbursements in the paying governmental fund.

Basis of Presentation

The accounts of the PRNG are organized and operated on a fund basis, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its cash receipts and disbursements. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of the revenue, or expenditures of either the fund category. The non-major funds are combined in a single column in the combined statement of cash receipts and disbursements.

The following fund types are used by the PRNG:

General Fund- The general fund is the primary operating fund of the PRNG. It is used to account for all financial resources, except those required to be accounted for in another fund. The current financial resources accounted for in this fund consist of legislative appropriations approved by the Commonwealth of Puerto Rico. The general fund is divided in the following programs:

Management and Administration - this program is used to account for resources and expenditures related to the supervision and coordination of all services and operation of the National Guard of Puerto Rico.

Security and Military Facilities Maintenance - this program is used to account for resources and expenditures related to the security of military installations, as well as the operation and maintenance of their physical facilities. They use state resources and in some cases through service agreements with the Federal National Guard section.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Basis of Presentation (Continued)

State Guard - this program is used to account for resources and expenditures related to the security, protection, and health services of Puerto Rico, especially in those cases in which the State Guard is activated by the PR Governor.

Auxiliary Services of Administration - this program is used to account for resources and expenditures related to auxiliary activities and complementary services of all the offices and programs that use state funds and federal service agreements for its operation.

Federal Cooperative Agreements - This fund is used to account for specific revenue sources that are legally restricted to cover disbursements for specific purposes in accordance with the federal regulations. The resources and expenditures accounted for in this fund include the proceeds received from the Department of Defense to support the operation and maintenance of the National Guard facilities.

In addition, this fund is used to account the transactions of the programs conducted by the PRNG to provide highly disciplined atmosphere fostering academics, leadership development, physical training and personal growth to educate and train unemployed high school dropout youths and make them productive members of the community. This fund also accounts the following youth programs: "Starbase" and "Challenge".

Special Programs - This fund is used to account for resources or funds that are deposited for specific purposes with applicable laws. They may come from service fees, donations, and private entities, other collections from governmental entities, and authorizations by the Legislative of the Commonwealth of Puerto Rico, which are designed to attain specific purposes. The expenditures charged to these accounts are authorized by legislation previously approved.

Statutory (Budgetary) Accounting

The PRNG's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting, which is not in accordance with the cash receipts and disbursements basis of accounting. Revenue is generally recognized when cash is received. Expenditures are generally recorded when the related expenditure is disbursed or encumbered. Until June 30, 2001, available appropriations and encumbrances were established to lapse three years after the end of the fiscal year. Effective July 1, 2001, available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrance was established by Act No. 123 of August 17, 2001, which amended the then existing appropriations and encumbrances lapsing provisions of Act No. 230 of July 23, 1974. Amounts required to settle claims and judgments against the PRNG, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Statutory (Budgetary) Accounting (Continued)

Under the statutory basis of accounting, the PRNG uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the PRNG's governmental funds, encumbrance is a significant aspect to budget control.

Budgetary Control

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts and other commitments of appropriated resources) are considered expenditures when a commitment is made. For cash receipts and disbursements basis of accounting, encumbrances outstanding at fiscal year-end are reported as reservations of budgetary appropriations and cash balances and do not constitute expenditures on a cash receipts and disbursements basis of accounting because such commitments will be honored during the subsequent fiscal year.

The Department of the Treasury of the Commonwealth of Puerto Rico (the Department) and the Office of Management and Budget of Puerto Rico (OMB) has the responsibility to ensure that budgetary spending control is maintained in the PRNG. Budgetary control is exercised through the Puerto Rico Integrated Financial Accounting System (PRIFAS).

PRIFAS ensures that encumbrances or disbursements are not processed if they exceed the PRNG's total available spending authorization. The legal level of budgetary control at the PRNG is for general fund disbursements.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Statutory Budgetary/Cash Receipt and Disbursement Basis of Accounting Reconciliation

The following schedule presents comparisons of the legally adopted general fund spending authorization with actual data on a statutory budgetary basis. Because the statutory basis of accounting differs from the cash receipts and disbursements basis of accounting used for the preparation of the PRNG's financial statements, it is necessary to reconcile the differences in the general fund for the fiscal year ended June 30, 2011. The Schedule of Receipts and Disbursements-Budget and Actual General Fund is as follows:

	<u>Budgeted</u>		<u>Actual</u>	
	<u>Amount</u>	<u>Final</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Original</u>	<u>Amended</u>	<u>Basis</u>	<u>Positive</u>
	<u>Budget</u>	<u>Budget</u>	<u>(See Note 1)</u>	<u>(Negative)</u>
Resources (inflows):				
Amounts available for appropriations	\$ 3,734,000	\$ 3,612,455	\$ 3,345,928	\$ (266,527)
Charges to appropriations (outflows):				
Administration and direction	114,000	151,720	175,830	(24,110)
Security and conservation of military facilities	3,140,000	3,022,438	2,585,802	436,636
State guard:	106,000	95,000	55,345	39,655
Auxiliary services of administration	<u>374,000</u>	<u>343,297</u>	<u>371,925</u>	<u>(28,628)</u>
Total charges to appropriations	<u>3,734,000</u>	<u>3,612,455</u>	<u>3,188,902</u>	<u>423,553</u>
Budgetary fund balance, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,026</u>	<u>\$ 157,026</u>

The reconciliation of the differences for the fiscal year ended June 30, 2011 for the general fund is as follows:

Excess (deficiency) of cash receipts determined in accordance with the statutory basis of accounting as presented in the Budgetary Comparison Schedule - General Fund - Budget Basis	\$ 157,026
Add: Adjustment made by the Department in the GL-015 report related with prior fiscal year encumbrances recognized as reductions of disbursement in the cash basis	<u>(1,458,387)</u>
Excess of cash disbursements, determined in accordance with the cash receipts and disbursement basis of accounting	<u>\$ (1,301,361)</u>

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Reservation of Cash Balances

Reservations of cash balance represent portions of cash balances that are legally segregated for a specific future use or are not appropriate for disbursements. The PRNG has the following reservations of cash balances:

Encumbrances - Represent future expenditures under purchase orders, contracts, and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Federal Cooperative Agreement - Represent monies to finance Federal programs for operations and maintenance of military facilities, and youth programs.

Other purposes - Represent future cash disbursements under purchase orders and commitments. These committed amounts represent a reservation of appropriations and generally will become cash disbursements in future periods as the goods or services are received.

Compensated Absences

The vacation policy of the Commonwealth of Puerto Rico that applies to the PRNG's employees provides for the accumulation of 2.5 days per month. Vacation time accumulated is fully vested to the employees from the first day of work up to a maximum of 60 days. PRNG's employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid leave at the current rate, if the employee has at least 10 years of service with the Commonwealth of Puerto Rico.

Deposits

For the purpose of financial reporting, "cash" includes all demand and savings accounts deposited in Governmental Development Bank and controlled by Treasury Department (Fiscal Agent established by Law 230 of Accounting for the Government of the Commonwealth of Puerto Rico of July 23, 1974, as amended).

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

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

Risk Financing

The PRNG is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for claims arising from such matters.

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses for the PRNG. The PRNG reimburses the Commonwealth for the premium payments made on its behalf. The current insurance policies have not been canceled or terminated. For workers' compensation, the Commonwealth has a discretely presented component unit, the State Insurance Fund Corporation (SIFC), which provides workers' compensation to the PRNG's employees.

Subsequent Events

Management has evaluated subsequent events through the date the Statement was available to be issued.

2. CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENT (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)

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

3. RETIREMENT PLAN

The PRNG is a participant of the Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, a cost sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. Until December 31, 1999, all regular full time employees of the PRNG under age 55, at the date of employment, become participants of the System as a condition for their employment. Persons joining on or after December 31, 1999, are only allowed to become members of hybrid defined contribution plan discussed ahead.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RETIREMENT PLAN (CONTINUED)

The System provides retirement, death, and disability benefits pursuant to Law No. 447 of May 15, 1951, as amended, that became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited services. Benefits vest after ten years of plan participation.

Participants who have attained age fifty-five and have completed at least twenty-five years of creditable service, or participants who have attained fifty-eight and have completed at least ten years of creditable service, are entitled to an annual benefit, 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 years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. For those participant employees after March 31, 1990, the amount of the annuity is 1 1/2% of the compensation multiplied by the number of years for credited services. In either case, the annuity should not be less than \$2,400. Members who have attained an age of at least sixty-five years and have completed at least forty years of creditable service or members who have attained age of at least fifty-eight years and have completed at least ten years of creditable service, are entitled to annual benefit, payable monthly for life.

Participants who have completed at least thirty years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five years of age will receive 65% of the average compensation or if they attained age fifty-five years will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten years of service. No further benefits are payable to a participant who receives a refund of his accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary and 8.275% for the salary in excess of \$6,600 for employees hired on or before April 1, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. The PRNG's contribution is 9.275% of gross salary.

On September 24, 1999, an amendment to Law No. 447 of May 15, 1951, 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 current system as of December 31, 1999, elected to either stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000, were only allowed to become members of System 2000.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RETIREMENT PLAN (CONTINUED)

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 of Puerto Rico. 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 that 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 will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the deficiency of the defined benefit plan. System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

The amount of the total pension benefits obligation is based on a standardized measurement established by general accepted accounting principles that, with some exceptions, must be used by a public employee retirement system. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation are summarized below:

Actuarial valuation date	June 30, 2010
Interest rate	7.5% a year
Salary increases	3.0% a year
Pre-retirement mortality	RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP 2000 Employee Mortality Rates with the blue-collar adjustments for males and females, projected on a generational basis using Scale AA.
Post-retirement health mortality	Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007, specifically as of 2005 and are thereafter projected on a generational basis using Scale AA.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

3. RETIREMENT PLAN (CONTINUED)

Post-retirement disabled mortality	RP-2000 Disabled Annuitant Mortality Rates, without projection.
Termination	Annual rate of termination 2%.
Commencement of benefits for terminated vested members	Current terminated members with a vested benefit are assumed to retire at fifty-eight.
Disability	Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, with certain adjustments. However, once a member is eligible for the 75% of the highest salary maximum benefit, rates of disability cease to apply.
Retirement age	Graded scale of retirement ages commensurate with anticipated experience.
Proportion of Participants with Spouses	50% of participants assumed to be married, with wives assumed to be four years younger than husbands.
Number of Employees Electing Higher	15% of retiring employees assumed to pay Contributions retroactive contributions at retirement.

The required and realized contribution by the employer for the years ended June 30, 2011 is as follows:

Required and realized contribution by the employer:

Act No. 447	\$ 641,468
System 2000	<u>205,957</u>
Total employer contributions	<u>\$ 847,425</u>

The financial statements and required supplementary information for the defined benefit pension plan are available at the administration office of the Employees' Retirement System of the Government of Puerto Rico, P.O. Box 42003 Minillas Station, San Juan, Puerto Rico 00940.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

4. LITIGATION AND CLAIMS

Law 104 of June 30, 1955, as amended, known as the Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and past employees, directors, majors, and others may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth of Puerto Rico and not from funds of the PRNG.

However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions, or municipalities of the defendants.

At June 30, 2011, the PRNG was defendant and/or co-defendant in various lawsuits. The PRNG is in the process of litigating these actions. The maximum exposure to the PRNG on these lawsuits was estimated at \$866,705. No accrual has been made for these amounts in the basic financial statements.

5. COMMITMENTS

The PRNG rents its facilities through operating lease agreements with the Puerto Rico Land Administration and the Puerto Rico Ports Authority, instrumentalities of the Commonwealth of Puerto Rico, and with other private entities. The agreements with the governmental instrumentalities provide for rental fees significantly below market value. Rent disbursements under such lease agreements for the fiscal year ended June 30, 2011, were approximately \$4,655. As of the date these financial statements were issued, the PRNG was negotiating various expired lease agreements, including some which monthly payments have been in wait for the signing of a new contract.

Future minimum rental payments as of June 30, 2011 (but including leases to the date the financial statements were released) are as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2012	\$ 33,131
2013	33,131
2014	33,131
2015	27,237
2016	407
	<u>\$ 127,037</u>

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

6. CONTINGENCIES

In the normal course of operations, the PRNG receives federal funds from programs that are governed by various rules and regulations of the grantor agencies. Expenditures financed by federal grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements, and are still subject to audit by the regulatory agencies. If expenditures are disallowed due to noncompliance with grant program requirements, the PRNG may be required to reimburse the grantor agency. Nevertheless, the PRNG's management is of the opinion that the amount of expenditures which may be disallowed by the granting agencies from such audits will not be significant. Therefore, no provision has been recorded by the PRNG.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the year ended June 30, 2010, disclosed instances of noncompliance with applicable laws and regulations that were considered significant deficiencies. Some of these significant deficiencies were also considered material weakness.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF DEFENSE NATIONAL GUARD BUREAU		
Program Title:		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	<u>\$ 15,009,554</u>

See notes to schedule of expenditures and federal awards

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grants activities of the Department of Transportation and Public Works of the Commonwealth of Puerto Rico (The Department) and is presented using the cash basis of accounting, which presents expenditures when the corresponding payment voucher is prepared and recorded in PRIFAS rather than when the obligation is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governmental and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies used in the preparation of the schedule follows:

1. The Accompanying Schedule of Expenditures of Federal Awards is prepared from PRIFAS and is not intended to present financial position or results of operations.
2. The financial transactions are recorded in accordance with the terms and conditions of the grants, which may not be consistent with generally accepted accounting principles.
3. Expenditures are recognized when actually paid.

FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based of the program's name and number, the award year and the Office of Management and Budget's Catalogue of Federal Assistance.

MAJOR FEDERAL PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

MATCHING COSTS

Matching costs, such as the non-federal share of certain program costs, are not included in the accompanying schedule, except for \$782,425 received from the Puerto Rico National Guard Institutional Fund.

DISBURSEMENTS ACCOUNTING

Based on the fact that the PRNG did not reconcile with PRIFAS their disbursement records, the accompanying Schedule of Expenditures of Federal Awards includes only the disbursements identified by management in PRIFAS. Accordingly, there can be no assurance that the Schedule of Expenditures of Federal Awards includes all expenditures actually approved and processed for payment at the PRNG.



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

MG Antonio J. Vicens
Adjutant General
National Guard of the Commonwealth of Puerto Rico

We have audited the Statement of Cash Receipts and Disbursements (the Statement) of the **National Guard of the Commonwealth of Puerto Rico (PRNG)** as of and for the year ended June 30, 2011 and have issued our report thereon dated March 20, 2012. 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.

Our report on the Statement disclosed that, as described in Note 1 to the Statement, the PRNG prepare its Statement on the receipt and disbursement method of accounting, which is a comprehensive basis of accounting other than an accounting principle generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 11-01 and 11-02.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as items 11-03 to 11-05 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRNG's 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 did not identify instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



March 20, 2012

Stamp number 2638792 was affixed to the original of this report



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

MG Antonio J. Vicens
Adjutant General
National Guard of the Commonwealth of Puerto Rico

Compliance

We have audited the compliance of the National Guard of the Commonwealth of Puerto Rico's (there in after the PRNG) 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 the PRNG' major federal program for the year ended June 30, 2011. The PRNG'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 its major federal program is the responsibility of PRNG's management. Our responsibility is to express an opinion on PRNG'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 PRNG'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 PRNG's compliance with those requirements.

In our opinion, the PRNG 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 program for the year ended June 30, 2011. The results of our auditing procedures also disclosed other 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 preceding paragraph.

Internal Control over Compliance

Management of the PRNG 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 PRNG'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 PRNG's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance; such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of *internal control over compliance* was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

Howarth Viley & Co. PSC

March 20, 2012

Stamp number 2638793 was affixed to the original of this report.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued Unqualified

Internal Control over Financial Reporting

- | | |
|---|-----|
| 1. Material weakness(es) identified? | Yes |
| 2. Significant deficiencies identified that are not considered to be material weakness(es)? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal Control over Major Programs

- | | |
|--|-----|
| 1. Material weakness(es) identified? | No |
| 2. Significant deficiencies that are not considered to be material weakness(es)? | Yes |

Type of auditor's report issued on compliance for major program? Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of Major Program

Name of Federal Program or Cluster	<u>CFDA Number</u>
National Guard Military Operations and Maintenance (O&M) Project	12.401

Dollar threshold used to distinguish between Type A and Type B programs \$ 451,277

Auditee qualified as a low-risk auditee? No

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENTS FINDING SECTION

11-01 Revenue Recognition
All State and Federal Financial Assistance Program
Internal Control / Material Weakness

Statement of Condition

The PRNG lacks an appropriate internal control structure to ascertain that revenue transactions in the accounting records are complete and accurate. Some of the conditions noted during our audit procedures for the fiscal year ended June 30, 2011, were the following:

1. The PRNG recorded in the federal minor support account non-federal revenue of \$782,425, received from the Puerto Rico National Guard Institutional Trust (FIGNA). On January 2012, the FIGNA revenue was reclassified to the Centralized Personnel Plan account, which is another federal account. Those funds were used for matching contributions.
2. The PRNG recorded as revenue \$ 830,145 in federal funds received before or after the current period for the following programs:

<u>Project Number</u>	<u>Project Name</u>	<u>Amount</u>
1001	Facilities Program	\$ 330,769
1002	Environment	42,005
1021	Air Maintenance	422,467
4001	Starbase	41,699
4002	Challenge	<u>34,512</u>
		<u>\$ 830,145</u>

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENTS FINDING SECTION (CONTINUED)

11-01 Revenue Recognition (Continued)

Criteria

As explained above, Law 230 of July 23, 1974, establishes accounting guidelines for all agencies of the government of Puerto Rico and also requires that the agency's accounting system should be designed to reflect or provide complete and clear information related to the agency's financial results of operations and provide accurate reports for both accounting and budget monitoring procedures.

Cause of Condition

The PRNG lack of internal controls and a proper accounting system that provides for the correct recording of revenue transactions.

Effect of Condition

Recording the funds received by the PRNG in the incorrect accounts could cause the improper use of those funds, or the inability to use funds for the designated purposes. Also, the missing evidential matter could prevent detecting errors or irregularities on a timely basis, and could hamper future audits by external auditors, the federal government or the Office of the Comptroller of Puerto Rico.

Recommendations

The PRNG should revise its accounting practices and policies to provide for an accurate revenue reporting system.

Questioned costs

None

Management Response

The management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

11-02 Cash Management
CFDA 12.401 - National Guard Military Operations and Maintenance
Significant Deficiency

Statement of Condition

The PRNG federal programs are funded on a reimbursement basis. To test compliance with the funding technique, we examined 68 disbursement vouchers charged to federal programs accounts during the fiscal year. Our examination included testing that disbursements were: 1) for expenses allowed under the program 2) for expenses paid prior to claiming the federal refund, and 3) were claimed to the federal government on a timely basis. In our test, we noted the following exceptions:

1. As of December 31, 2011, the PRNG did not submitted for our examination, 29 reimbursement vouchers totaling \$87,205 and 31 remittance voucher for \$91,349, used to pay for services received and payroll, corresponding to the following programs:

Services:

- | | | |
|----|-----------|---------------|
| a. | 700821001 | Army Support |
| b. | 700921001 | Training Site |
| c. | 701021001 | Army Support |

Payroll:

- | | | |
|----|-----------|-------------------------------|
| a. | 701121011 | Training Site |
| b. | 701121003 | Physical Security |
| c. | 701121021 | Air Operating and Maintenance |
| d. | 701121023 | Air Security |
| e. | 701123005 | Language Center |

2. The total days lapsed, between the Puerto Rico Treasury Department disbursement and the submission of the reimbursement voucher to the federal agency were between five and 250 days. Normally, we expect the reimbursement vouchers to be submitted within fifteen days after the disbursement is made.

Criteria

As an internal control, the Agency must have sufficient internal controls to provide appropriate mechanisms to ensure that requests of reimbursements of federal funds be processed promptly, as the disbursement vouchers are processed.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)

11-02 Cash Management (Continued)

Cause of Condition

Lack of internal controls by those charged with governance to oversight the processing of requests of reimbursements of the federal awards. Furthermore, there is also a lack of controls over files.

Effects of Condition

If funds are not claimed on a timely basis or not claimed at all, this condition could lead to the loss of federal funds, and could deplete the PRNG's local fund balances, limiting the ability to settle non-federal obligations. In addition, the missing evidential matter could prevent detecting errors or irregularities on a timely basis, and could hamper future audits by external auditors, the federal government or the Office of the Comptroller of Puerto Rico.

Recommendations

Management must implement a process to ascertain that all expenditures made from federal programs are claimed (completeness) and the claims are made timely. As to the filing of documents, we recommend that a file system should be implemented under the control of a person different from the financial analyst responsible for the federal awards. To ascertain all reimbursement vouchers are filed, once they are approved by the PRNG's Engineering Department (the department responsible for the last approval and the sending of documents to the federal agency), should forward the voucher copy directly to the filing clerk for filing. Once filed, any reimbursement voucher or other document that needs to be retrieved and removed from the file area, needs to be logged.

Question Costs

None.

Management Response

The management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)

11-03 Controls over Cash Disbursements
All Federal and State Programs
Deficiency in Internal Control

Statement of Condition

During the year ended June 30, 2011, the PRNG charged to federal program expenditures amounting to \$7,017,466 (excluding \$7,992,090 related to payroll expenditures). To test compliance with federal and state laws and regulations, we selected a sample of 50 disbursements noting the following exceptions:

1. Sixteen cases, totaling \$140,789, in which documents lacked the voucher payment stamp.
2. One case, totaling \$2,273, lacked the approved purchase order.

Also, during the current fiscal year, the PRNG charged to state program expenditures the amount of \$3,175,436 (excluding \$4,564,000 related to payroll expenditures). To test compliance with State laws and regulations, we selected a sample of 10 charges to state funds noting the following exceptions:

1. Three cases, totaling, \$24,469, lacked the approved vendor invoice.
2. Four cases, totaling \$110,161, lacked the voucher payment stamp.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2011

**SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

11-03 Controls over Cash Disbursements Continued)

Statement of Criteria

All recipients and sub-recipients must follow the Federal Allowable Cost Principles determined under OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments", and the common rule "Uniform Administrative Requirements for Grants and Cooperative Agreements for State and Local Governments" which is codified at 29 CFR Part 97.

The costs must be necessary and reasonable; consistent with allowable activities; supported by appropriate documentation; allocable to a particular cost objective and must be authorized or not prohibited under Federal, State, or local laws or regulations.

Federal and State Regulations require that documents be preserved and filed in such a way that they could be located, identified and be available for examination for a period of seven years or for an intervention of the Office of the Comptroller of the Commonwealth of Puerto Rico, whichever occurs first.

Effect of Condition

The lack of sufficient evidential matter to support disbursement transactions could allow for improper payments, not in accordance with Federal and State Regulations, and even allows for the concealment of fraud.

Cause of Condition

Lack of oversight of financial reporting and internal controls by those charged with governance.

Recommendation

We recommend management to design and implement proper controls to retain and store records in a manner that will preserve their integrity and admissibility as evidence in any audit, litigation or other similar proceeding. The records should be stored in an orderly manner with adequate physical protection against theft, forgery, destruction, or loss in order to properly evidence all disbursements made by the PRNG.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

**SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

11-03 Controls over Cash Disbursements Continued)

Questioned Costs

None

Management Response

The PRNG's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**11-04 Procurement, Suspension, and Debarment Requirements
CFDA 12.401 National Guard Military Operations and Maintenance
Deficiency in Internal Control**

Statement of Condition

During our tests to determine compliance with procurement, suspension and debarment requirement we noted the following:

1. Four auction files, totaling \$1,023,361, lacked the minutes of the pre-meeting auction, auction and award meeting. In one of the files, the minute of the auction was not signed by the Auction Board Members
2. One auction file, for \$30,180, lacked the auction sheet analysis.

Statement of Criteria

The OMB Circular A-133 and 32 C.F.R Part 33 establishes that States, and governmental sub-recipients of States, shall follow the same State policies and procedures used for procurements of non-Federal funds. In addition, they should maintain records in sufficient to detail to document the complete procurement process. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection, or rejection, and the basis for the contract price.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

**SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

11-04 Procurement, Suspension and Debarment Requirement (Continued)

Cause of Condition

The PRNG's Auction does not properly review that all required documentation is available for contracts performed is not following existing procurement process. In addition, the Auction Board did not comply with the 32 CFR Part 33 by not having sufficient documents to detail the history of an auction.

Effect of Condition

Deficiencies in the design and operation of procurement processes, and related internal control policies could result in errors and misstatements, unauthorized approvals, violations of laws, regulations, provisions of contract or grant agreements, fraud, or abuse having a direct and material effect on the statement.

Recommendation

The PRNG should enforce already existing procedures to procurement processes and related internal control policies, to ascertain that the PRNG meets all the federal requirements applicable to procurement of construction contractor work.

Questioned Costs

None.

Management Response

The PRNG's management concurs with the finding. Auditor's recommendation would be considered as part of a corrective action plan development and implementation.

**11-05 Equipment and Real Property Management
All Federal and State Programs
Deficiency in Internal Control**

Statement of Condition

The PRNG does not maintain up to date a computerized property ledger that can be reconciled with periodic physical inventories taken and that could provide a depreciation schedule.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011

**SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

11-05 Equipment and Real Property Management (Continued)

Criteria

An appropriate control system shall be used to safeguard property and equipment, and such controls shall be adequately maintained and updated.

Cause

The PRNG does not have an accounting system that provides for periodic verification of the existence and conditions of property and equipment. No inventory or reconciliation of property ledger procedures has been established as required by federal and state regulations.

Effect

This condition causes that the PRNG is unable to obtain reasonable assurance that there is a control over the existence and condition of the PRNG's property and equipment.

Recommendation

A computerized plant ledger should be implemented to account for property and equipment. These perpetual records should be updated on a monthly basis with all purchases, transfers and retirements of property. Physical inventories should be taken at least on annually. These physical inventories should be compared with the perpetual records and all differences noted must be investigated and resolved.

Questioned Costs

None.

Management Response

The PRNG's management concurs with the finding. Auditor's recommendation would be considered as part of a corrective action plan development and implementation.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2011

FINDING NUMBER: 10-02

Condition Found

The PRNG does not maintain a computerized property ledger that can be reconciled with physical inventories taken and that could provide a depreciation schedule.

Known Questioned Cost

None.

Current Status

Condition still prevails.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2011

FINDING 11-01 Revenue Recognition

Corrective Action

1. PRNG hired a Federal Funds Analyst, responsible for the proper management of these funds. We will be evaluating the revenue cycle to ensure an accurate reporting system.

The amount of \$782,425 recorded under the Minor Support account was reclassified on November 2011 to the CPP account.

Although the CPP account carries a federal designation (272), it is really considered a state account. The CPP account receives reimbursements from the Federal government for services rendered by the State Services Administrative Divisions. The Federal government does not audit the CPP account.

2. The Federal Funds Analyst will submit a monthly report to USPFO including the remittance vouchers as posted in PRIFAS. This report could be reconciled by both parties in order to identify any differences and correct them.

Person(s) Responsible

Pilar Tirado – Special Assistant Finance and Budget State Office
Brenda Lee Castro – Assistant Director Finance and Budget Office

Estimated Completion Date

June 30, 2012

FINDING 11-02 Cash Management

Corrective Action

1. On April 2012, the Finance and Budget State Office implemented a scanning process to file all fiscal documents electronically to avoid misplaced or lost documents. The office's Administrative Assistant is responsible for scanning the documents. Other employees from the office have read-only access to the files.

2. The Federal Funds Analyst is responsible for preparing fund reimbursements immediately after disbursements are completed. This process includes the following steps:

(a) Query PRIFAS for weekly disbursements in order to prepare reimbursement vouchers.

(b) Prepare a biweekly report to follow-up on the reimbursements sent to the Program Managers. This report will be submitted by email to the State Affairs Executive Officer, to the Finance Director and USPFO.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

CORRECTIVE ACTION PLAN (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINDING 11-02 Cash Management (Continued)

Person(s) Responsible

Pilar Tirado – Special Assistant Finance and Budget State Office
Brenda Lee Castro – Assistant Director Finance and Budget Office

Estimated Completion Date

June 30, 2012

FINDING 11-03 Controls over Cash Management

Corrective Action

The scanning filing process will help in protecting the integrity of all the fiscal documents for internal use and evidence in an audit, litigation or other similar proceeding. Invoices will include a payment stamp.

Person(s) Responsible

Pilar Tirado – Special Assistant Finance and Budget State Office
Brenda Lee Castro – Assistant Director Finance and Budget Office

Estimated Completion Date

April 30, 2012

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

CORRECTIVE ACTION PLAN (CONTINUED)

YEAR ENDED JUNE 30, 2011

FINDING 11-04 Procurement, Suspension and Department Requirements

Corrective Action

The Auction Board will procure that all minutes be filed with their corresponding bid documentation. They will also maintain a file of the bid evaluation minutes for future references.

Person(s) Responsible

COL Ricardo Falcon – President Auction Board
MAJ William O'Connor – Legal Representative Auction Board

Estimated Completion Date

September 30, 2012

FINDING 11-05 Equipment and Real Property Management

Corrective Action

The General Services Section acquired an adequate property software and is entering the data concerning all the state property as required by the Puerto Rico Treasury Department. The software has the capability to perform the physical inventory through handheld equipment, therefore monitoring and reconciling the inventory and the subsidiary of property. At this moment, the property personnel is identifying and labeling all the equipment in all the PRNG facilities with the barcodes needed to do the physical inventory with the computerized system.

Person(s) Responsible

Samuel Santiago – General Services Director
Rafael Matos – Property Book Officer

Estimated Completion Date

December 31, 2012

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

CORRECTIVE ACTION PLAN (CONTINUED)

YEAR ENDED JUNE 30, 2011

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

FINDING 10-02 Equipment and Real Property Management

Corrective Action

The General Services Section acquired an adequate property software and is entering the data concerning all the state property as required by the Puerto Rico Treasury Department. The software has the capability to perform the physical inventory through handheld equipment, therefore monitoring and reconciling the inventory and the subsidiary of property. At this moment, the property personnel is identifying and labeling all the equipment in all the PRNG facilities with the barcodes needed to do the physical inventory with the computerized system.

Person(s) Responsible

Samuel Santiago – General Services Director
Rafael Matos – Property Book Officer

Estimated Completion Date

December 31, 2012