

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND
HUMAN RESOURCES**

**BASIC FINANCIAL STATEMENTS
WITH THE ADDITIONAL REPORTS
AND INFORMATION REQUIRED
BY THE SINGLE AUDIT ACT**

YEAR ENDED JUNE 30, 2008

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	PAGES
<u>BASIC FINANCIAL STATEMENTS</u>	
INDEPENDENT AUDITORS' REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 15
FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
- Statement of Net Assets (Deficit)	16
- Statement of Activities	17
Fund Financial Statements:	
Governmental Funds:	
- Balance Sheet	18
- Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit)	19
- Statement of Revenues, Expenditures and Changes in Fund Balances	20
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of governmental funds to the Statement of Activities	21
Proprietary Funds:	
- Statement of Net Assets	22
- Statement of Revenues, Expenses, and Changes in Fund Net Assets	23
- Statement of Cash Flows	24
Fiduciary Funds:	
- Statement of Fiduciary Net Assets	25
Notes to Basic Financial Statements	26 - 58

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS (CONTINUED)

	PAGES
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Expenditures of Federal Awards	59
Notes to the Schedule of Expenditures of Federal Awards	60 - 61
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
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	62 - 63
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	64 - 65
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of Findings and Questioned Costs	66 - 97
Summary of Prior Audits Findings	98



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- American Institute of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

To the Honorable Secretary
Commonwealth of Puerto Rico
Department of Labor and Human Resources
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (The Department), as of and for the year ended June 30, 2008, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1(A). Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for such funds and discretely presented component units identified above, is based on the report of the other auditors.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

The internal control structure and the accounting records of the Department are inadequate to ensure that balances are accurately reflected in the financial statements, and that all relevant transactions are completely and fairly presented in the accounting records. Among the most significant weaknesses in the internal control structure and the accounting system that affect the proper recording of transactions and presentation of balances are the following:

- No proper reconciliation procedures have been implemented for investment accounts, cash accounts and the balances of funds maintained by fiscal agencies on behalf of the Department, such as the Department of the Treasury of the Commonwealth of Puerto Rico and the Treasury Department of the United States of America. Due to this fact, the Department is not able to present fairly the balances of funds available, and the amount of interest that should be returned to Federal Agencies on federal funds deposited in interest bearing accounts in excess of the period of time permitted by federal regulations.

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE SECRETARY
DEPARTMENT OF LABOR AND HUMAN RESOURCES
(CONTINUED)

2

- The internal control structure established for the reconciliation, summarization and recording of benefits payable and accounts payable is not adequate and do not provide assurance that all the related obligations are properly managed and recorded on books. Due to this matter the benefits payable and accounts payable balances may exclude significant claims incurred during the year and the effect of those claims can not be determined.
- DOL's finance Department does not summarizes and record the transactions related to payroll, bonus and payroll taxes accruals. Also, the Department does not maintain adequate procedures for summarization and accounting of the accrued vacation and sick leave and the balance included on the financial statements may not presented the total amount due to employees.
- The Department does not maintain accurate accounting records to adequately account for its capital assets nor for recording of all assets acquired, disposed or sold.
- Special Disbursement Officer's reconciliations maintain significant reconciling items, which the Department did not maintain any evidence to support them.
- The Department has not maintained proper cut-off procedures and accordingly significant accounts receivables, liabilities and related revenues and expenditures may have been improperly recorded or unrecorded in the accompanying financial statements.
- The Department does not maintain a subsidiary of encumbrances; therefore we can not evaluate the reasonability of reserve for encumbrances as of June 30, 2008.
- The due to/ from and operating transfer in/ out accounts were not reconciled by management.

Also, as discussed in Note 1(A) the Future Entrepreneurs and Worker Training Administration (FEWTA) prepared its financial statements using the cash basis method of accounting, which is other comprehensive basis of accounting (Departure from GAAP). Therefore, the financial statements of FEWTA can not be presented as a component unit of the Department in the accompanying financial statements.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Department, as of June 30, 2008, and the changes in financial position, thereof for the year then ended.

In addition, in our opinion, except for the effects, if any, of the matters described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT

**TO THE HONORABLE SECRETARY
DEPARTMENT OF LABOR AND HUMAN RESOURCES
(CONTINUED)**

3

In accordance with Government Auditing Standards, we have also issued our reports dated June 25, 2009 on our consideration of the Department's internal control over financial reporting and on our test 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.

The Management's Discussion and Analysis on pages 4 through 15 is not a required part of the Basic Financial Statements but is 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. During fiscal year 2008 the Central Government did not assigned funds to the Department to be accounted for in the general fund. Accordingly, the required Budgetary Comparison Schedule - General Fund is not presented as supplementary information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Labor of the Commonwealth of Puerto Rico basic financial statements. 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 statements of the Department. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, except for the matters described in the preceding paragraphs, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 25, 2009
Stamp No. 2312198 of the Puerto Rico Society of Certified
Public Accountants was affixed to the record copy of this report



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

4

The Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department) is an Executive Department of the Commonwealth of Puerto Rico created by Law No. 15 of April 14, 1931, as amended, to promote the working class welfare, improve the job conditions in Puerto Rico and help reduce unemployment. The following discussion and analysis of the Department performance provides an overview of the Department's financial activities for the year ended June 30, 2008. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Department as a whole using the economic resources measurement focus and accrual basis of accounting. The following are some of the most important financial highlights of these financial statements.

- Total assets of the Department amounted to **\$605,464,016** which represents a decrease of **\$60,005,784 (9.02%)** compared with fiscal year 2007.
- Total liabilities of the Department amounted to **\$93,052,303** which represents a decrease of **\$10,706,806** as compared with fiscal year 2007.
- The assets of the Department, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2008 by **\$512,411,713**.
- Total long term-debt as of June 30, 2008 amounted to **\$19,399,786** which represents a decrease of **\$97,982** compared with fiscal year 2007.
- During the fiscal year 2008, the Department made payments amounting to **\$1,736,240** for principal and interest related to the long-term debt which is collateralized by the Department's main building.
- Total revenues decreased by **\$7,923,324 (2.43%)** and expenses increased by **\$25,712,471 (6.95%)** in comparison with fiscal year 2007.
- The net assets of our governmental activities decreased by **\$38,147,967** and the net assets of the business type activities decreased by **\$11,151,011**. The net change in assets amounted to **(\$49,298,978)** a decrease of **\$41,919,396** in relation to the prior fiscal year (2007) net change.

Financial Highlights (Continued)

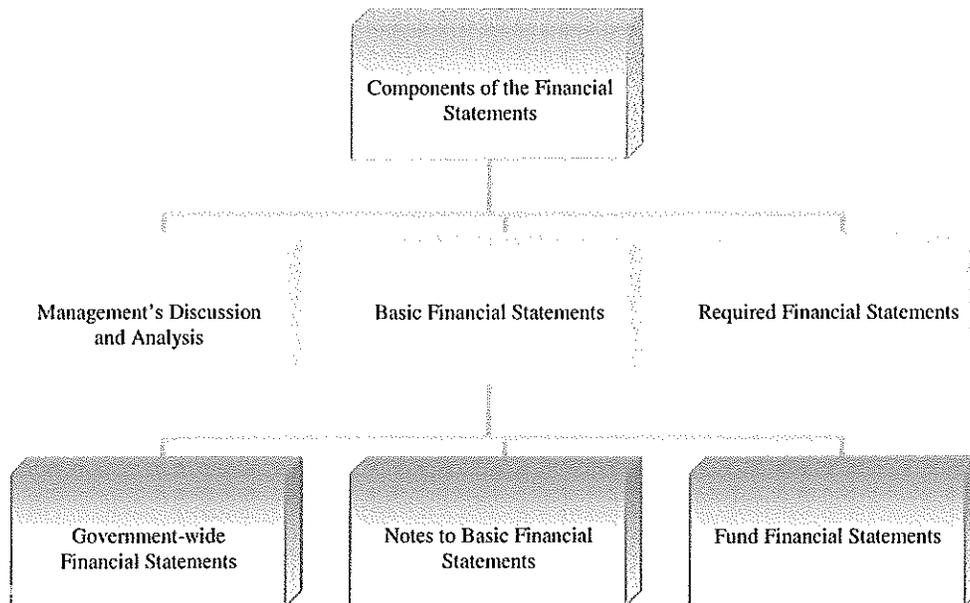
Highlights for Fund Financial Statements

The fund financial statements provide detailed information about the Department's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting. The following are some of the most important financial highlights of these financial statements.

- The Department's governmental funds reported combined ending fund balances amounting to \$3,285,069 at the close of current year, which represents a decrease of \$36,950,632 compared with fiscal year 2007.
- Total expenditures of the governmental funds exceeded total revenues by \$121,970,244. Also, during current year governmental funds received transfers of funds amounting to \$85,019,613 from the proprietary funds for operational purposes.
- The Department's proprietary funds reported combined ending fund balances amounting to \$518,369,926 at the close of current year, which represents a decrease of \$11,151,010 compared with fiscal year 2007.
- Total operating revenues of the proprietary funds exceeded total expenses by \$73,868,602. Also, during current year proprietary funds made transfers of funds amounting to \$85,019,613 to the governmental funds for operational purposes.
- Total benefits paid by the proprietary funds to eligible citizens during the year ended June 30, 2008, amounted to \$227,090,964.
- At June 30, 2008, the Department's fiduciary fund has available cash and equivalents amounting to \$4,024,506, to pay for unsettle claims between employers and employees.

Overview of the Financial Statements

The Department of Labor and Human Resources' basic financial statements comprises three components: 1) Management's Discussion and Analysis (presented here) 2) Basic Financial Statements, and 3) Required Supplementary Information. This report also contains other supplementary information.



The Department's basic financial statements consist of two kinds of statements, each with a different view of the Department's finances. The government-wide financial statements provide both long-term and short-term information about the Department's overall financial status. The fund financial statements focus on major aspects of the Department's operations, reporting those operations in more detail than the government-wide statements.

Basic Financial Statements:

Government-Wide Financial Statements: The Government-Wide Financial Statements report information about the Department as a whole using accounting methods similar to those used by private-sector business. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

The first government-wide statement "*the Statement of Net Assets (Deficit)*" presents information of all of the Department assets and liabilities, with the difference between the two reported as net assets (net deficit). Over time, increases or decreases in the Department's net assets or net deficit in assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating as a result of the year's operations.

Overview of the Financial Statements (Continued)

Basic Financial Statements (Continued):

The second statement "*the Statement of Activities*" presents information showing how the Department's net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The Government-Wide Financial Statements reports as governmental activities the Department's basic services such as work incentive, occupational safety and health, employment services, unemployment services and statistics and monitoring. Also, the government-wide statements present the business type activities such as unemployment insurance, temporary occupational disability insurance and drivers' social security insurance.

The Government-Wide Financial Statements of the Department of Labor and Human Resources' can be found on pages 16 and 17 of this report.

Fund Financial Statements: The fund financial statements provide more detail information about the Department's most significant funds. Funds are accounting devices that the Department uses to keep track of specific sources of funding and expending for particular purposes. The Department like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements' it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both, the Governmental Fund Balance Sheet and the Statement of Governmental Fund of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental facilities activities.

The governmental fund statements focus on major funds. The Department's major funds are the general fund (which accounts for government appropriations) and funds that complies with minimum criterion (percentage of assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

Overview of the Financial Statements (Continued)

Basic Financial Statements (Continued):

Proprietary funds: are used to account for enterprise funds and internal service funds. The reporting of proprietary funds focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The financial statement required for proprietary funds are (a) statement of net assets or balance sheet, (b) statement of revenues, expenses, and changes in fund net assets or fund equity, and (c) statement of cash flows. Those financial statements should be presented using the economic resources measurement focus and the accrual basis of accounting.

The proprietary funds statement of net assets or balance sheet should report information about the economic resources (assets liabilities, and net assets) for each major enterprise fund, all non-major enterprise funds in the aggregate, and in total for all enterprise funds.

The proprietary funds statement of revenues, expenses, and changes in fund net assets or fund equity should distinguish between operating and non-operating revenues and expenses and present a separate subtotal for operating revenues, operating expenses and operating income.

The Department should present a statement of cash flows for proprietary funds using the direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income). The statement of cash flows should classify cash receipts and payments according to whether they stem from operating, non-capital financing, capital and related financing and investing activities.

The Department's proprietary funds accounts for the Unemployment Insurance, the Temporary Occupational Disability Insurance and the Drivers' Social Security Insurance Programs. The Unemployment Compensation Program is a federal-state partnership program providing payments to eligible unemployed workers that is funded principally by "experience-rated" federal and state taxes on employers.

GASB Statement No. 34 requires unemployment compensation benefit plans to be reported as enterprise funds because the employer taxes are considered exchange-like transactions. Since the Temporary Occupational Disability Insurance and the Drivers' Social Security insurance programs operates in the similar manner they are considered enterprise funds.

Fiduciary funds: are used to account for pension trust funds, investment trust funds, private-purpose trust fund and agency fund. The financial statements required for fiduciary funds are (a) statement of fiduciary net assets, and (b) statement of changes in fiduciary net assets. Those financial statements should be presented using the economic resources measurement focus and the accrual basis of accounting. The Department's fiduciary funds accounts for an agency fund. The resources accounted for in this fund are held in a purely custodial capacity. Since the agency funds should not be reported in the statement of changes in fiduciary net assets, such statement is not presented as a part of the basic financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Overview of the Financial Statements (Continued)

Basic Financial Statements (Continued):

Notes to financial statements: the notes provide information that is essential to a full understanding of the data provided about the primary government which is included in the government-wide and fund financial statements. Also, provide information about the discretely presented component units included in the government-wide financial statements. The notes to the financial statements can be found on pages 26 through 58 of this report.

Required supplementary information: provides additional information to understand the financial position of the Department.

Financial Analysis of the Department as a Whole

Net Assets (Deficit)

The following table presents the Condensed Statements of Net Assets (Deficit) of the Department as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Current assets	\$ 595,307,512	\$ 654,017,978	\$ (58,710,466)
Capital assets, net	<u>10,156,504</u>	<u>11,451,822</u>	<u>(1,295,318)</u>
Total assets	<u>\$ 605,464,016</u>	<u>\$ 665,469,800</u>	<u>\$ (60,005,784)</u>
Current liabilities	73,652,517	84,261,341	(10,608,824)
Long-term liabilities	<u>19,399,786</u>	<u>19,497,768</u>	<u>(97,982)</u>
Total liabilities	<u>93,052,303</u>	<u>103,759,109</u>	<u>(10,706,806)</u>
Net Assets (Deficit)			
Invested in Capital Assets	7,889,807	8,290,330	(400,523)
Restricted	520,208,593	568,076,020	(47,867,427)
Unrestricted	<u>(15,686,687)</u>	<u>(14,655,659)</u>	<u>(1,031,028)</u>
Total Net Assets	<u>\$ 512,411,713</u>	<u>\$ 561,710,691</u>	<u>\$ (49,298,978)</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Financial Analysis of the Department as a Whole (Continued)

Net Assets (Deficit) (Continued)

The Statement of Net Assets (Deficit) serves as an indicator of the Department's financial position at the end of fiscal year. The Department's net assets decrease by \$49,298,978 over the course of this fiscal year's operations. The more significant change was a decrease of \$47,867,427 in restricted net assets which are related to the governmental activities.

The Departments' Net Assets (Deficit) as of June 30, 2008 include investment in property and equipment (net of accumulated depreciation and related debt) amounting to \$7,889,807.

Also, net assets include a restricted portion amounting to \$518,369,926, which are related to the business type activities. These net assets can be used only to provide funding to the unemployment insurance, temporary occupational disability insurance and the drivers' social security insurance programs.

Statement of Activities

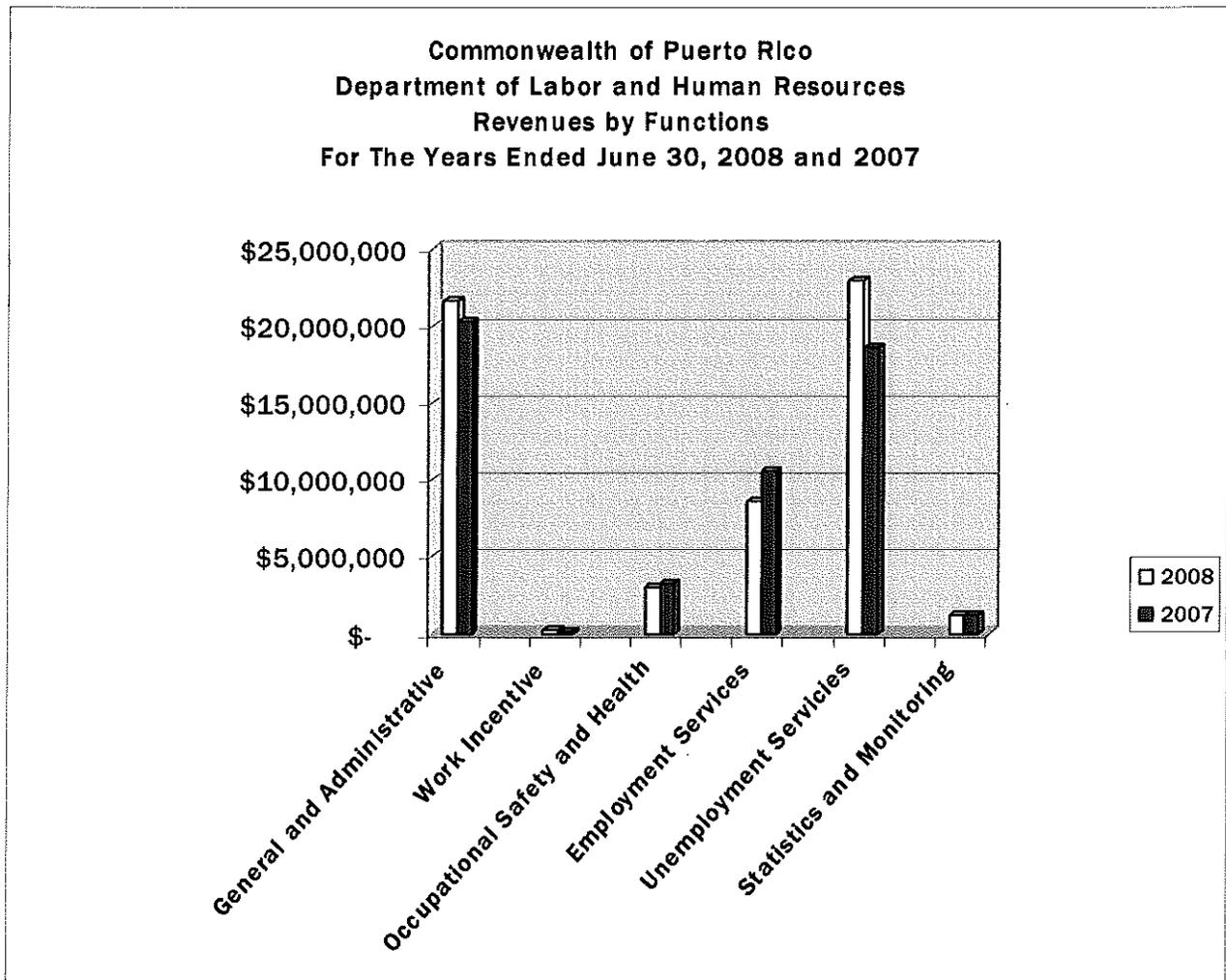
The following table summarizes the changes in revenues, expenses and net assets for the years ended June 30, 2008 and 2007.

Revenues:	<u>2008</u>	<u>2007</u>	<u>Change</u>
Primary government	\$ 57,738,171	\$ 54,015,858	\$ 3,722,313
Business type activities	<u>260,673,976</u>	<u>272,319,613</u>	<u>(11,645,637)</u>
Total revenues	<u>318,412,147</u>	<u>326,335,471</u>	<u>(7,923,324)</u>
Expenses:			
Primary government	181,445,317	165,236,380	16,208,937
Business type activities	<u>214,489,382</u>	<u>204,985,848</u>	<u>9,503,534</u>
Total expenses	<u>395,934,699</u>	<u>370,222,228</u>	<u>25,712,471</u>
Expenses over revenues	(77,522,552)	(43,886,757)	(33,635,795)
Other revenues	<u>28,223,574</u>	<u>36,507,175</u>	<u>(8,283,601)</u>
Change in net assets	<u>\$ (49,298,978)</u>	<u>\$ (7,379,582)</u>	<u>\$ (41,919,396)</u>

Financial Analysis of the Department as a Whole (Continued)

Statement of Activities (Continued)

The following chart presents revenues comparison by function of the governmental activities for the years ended June 30, 2008 and 2007:



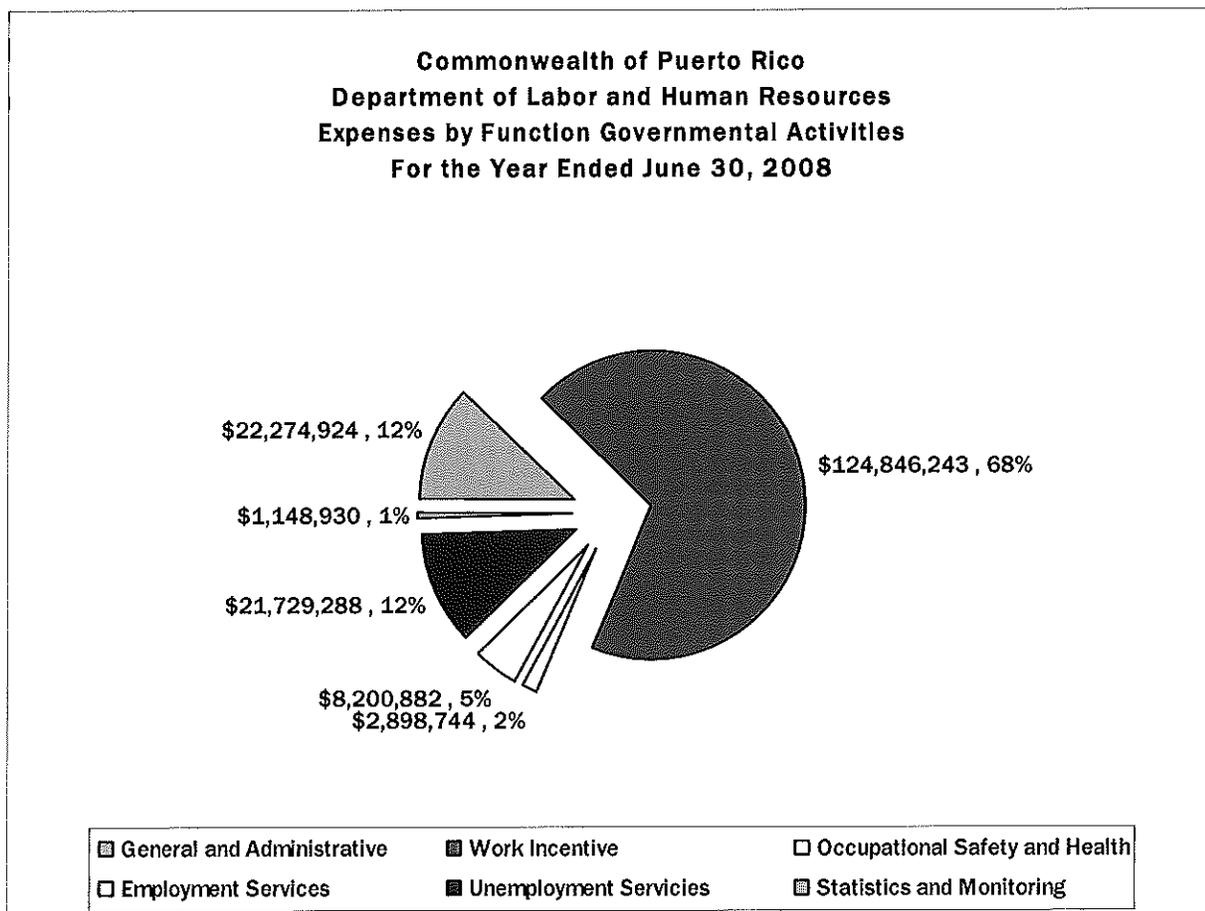
The Department's governmental activities major sources of revenues are accounted for general and administrative, employment services and unemployment services functions. Those revenues represent 92% of the total governmental revenues for the years ended June 30, 2008 and 2007.

Financial Analysis of the Department as a Whole (Continued)

Statement of Activities (Continued)

During current fiscal year, total expenses increased by \$25,712,472 or 6.95% in comparison with fiscal year 2007. An increase of expenses amounting to \$16,208,939 or 9.81% resulted from primary governmental activities. Also, an increase of expenses amounting to \$9,503,534 resulted from proprietary funds activities.

The following chart presents expenses by function of the governmental activities for the year ended June 30, 2008:



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Financial Analysis of the Department as a Whole (Continued)

Statement of Activities (Continued)

The following table presents comparison of revenues derived from proprietary funds for the years ended June 30, 2008 and 2007:

Program:	<u>2008</u>	<u>2007</u>	<u>Change</u>
Unemployment insurance	\$ 241,293,135	\$ 254,475,705	\$ (13,182,570)
Disability insurance	14,064,693	13,410,171	654,522
Drivers' insurance	<u>5,316,148</u>	<u>4,433,737</u>	<u>882,411</u>
Total revenues	<u>\$ 260,673,976</u>	<u>\$ 272,319,613</u>	<u>\$ (11,645,637)</u>

The Department's major sources of revenues are derived from the business type activities which represent 82% and 83% of total revenues from all sources for the years ended June 30, 2008 and 2007, respectively. As shown in the previous table, during the year this type of revenues presented a decrease of \$11,645,637 which represented a decrease of 4.28% compared with the results obtained during fiscal year 2007.

During the year 2008, the Department incurred expenses for the business type activities amounting to \$214,489,382, related to benefits of the unemployment insurance, temporary occupational disability insurance and drivers' social security insurance programs claimed by eligible citizens.

The following table presents a comparison of expenses incurred by proprietary funds for the years ended June 30, 2008 and 2007:

Program:	<u>2008</u>	<u>2007</u>	<u>Change</u>
Unemployment insurance	\$ 210,813,109	\$ 200,359,748	\$ 10,453,361
Disability insurance	2,694,545	3,207,072	(512,527)
Drivers' insurance	<u>981,728</u>	<u>1,419,028</u>	<u>(437,300)</u>
Total accrued benefits	<u>\$ 214,489,382</u>	<u>\$ 204,985,848</u>	<u>\$ 9,503,534</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

Financial Analysis of the Department as a Whole (Continued)

Statement of Activities (Continued)

Also, during the year ended June 30, 2008, the Department earned interest income amounting to \$28,201,305 from different financial institutions. Interest income derived from the unemployment program amounted to \$27,661,739 represents 98% of total interest earned during the year.

Capital Assets

The capital assets of the Department of Labor and Human Resources are those assets that are used in the performance of its functions. The investment in capital assets (net of accumulated depreciation) as of June 30, 2008, amounted to \$10,156,504.

Benefits Payable

The following table summarizes total benefits payable to eligible citizens as of June 30, 2008 and 2007:

Program:	<u>2008</u>	<u>2007</u>	<u>Change</u>
Unemployment insurance	\$ 52,973,463	\$ 65,651,295	\$ (12,677,832)
Disability insurance	767,261	778,152	(10,891)
Drivers' insurance	<u>461,968</u>	<u>335,211</u>	<u>126,757</u>
Total accrued benefits	<u>\$ 54,202,692</u>	<u>\$ 66,764,658</u>	<u>\$ (12,561,966)</u>

Total benefits payable as of June 30, 2008 amounted to \$54,202,692. Unemployment insurance benefits payable represents 98% of the total balance as of June 30, 2008 and 2007, respectively.

Next Year's Budget

For current fiscal year and for the subsequent fiscal years, the Department is considered a self sufficient agency since the Central Government of the Commonwealth of Puerto Rico did not assign any budget appropriation for the Department's operations.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

15

Component Units

The following component units, consistent with GASB No. 14, should be discretely presented in the government-wide financial statements because of the nature of the services they provide and the Department's financial oversight over them.

- Right to Employment Administration
- Future Entrepreneurs and Workers Training Administration
- Human Resources and Occupational Development Council
- Vocational Rehabilitation Administration

The financial statements of The Future Entrepreneurs and Workers' Training Administration were prepared using the cash basis method of accounting, which is a different reporting model from the primary government. Therefore, the financial statements of that component unit can not be presented with the Department's Financial Statements. Additional information of each component unit is presented in the notes to the basic financial statements.

Contacting the Department's Financial Management

This report is designed to provide a general overview of the Department's finances and to demonstrate the accountability of the funds received and expended. If you have any questions about this report or need additional information, contact the Department's Auxiliary Secretary of Management Affairs at (787) 754-5897, or P.O. Box 195540 San Juan, Puerto Rico 00919-5540.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2008

16

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS				
Cash	\$21,159,787	\$23,173,148	\$44,332,935	\$8,355,276
Cash held by the Treasury Department of the Commonwealth of Puerto Rico	(7,927,061)	(90,855,719)	(98,782,780)	-
Cash held by the Treasury Department of the United States of America	-	547,314,679	547,314,679	-
Investments	-	34,698,392	34,698,392	-
Accounts receivable	-	67,744,286	67,744,286	3,347,470
Due from:				
Federal government	-	-	-	113,394,014
Primary government	-	-	-	3,183,499
Other governmental entities	-	-	-	4,138,043
Other funds	-	-	-	25,507
Prepaid expenses	-	-	-	113,700
Capital assets, net of depreciation	10,156,504	-	10,156,504	3,046,024
Total assets	\$23,389,230	\$582,074,786	\$605,464,016	\$135,603,533
LIABILITIES				
Bank overdraft	-	-	-	47,195
Accounts payable and accrued liabilities	9,947,657	54,891,859	64,839,516	10,265,447
Deferred revenues	-	8,813,001	8,813,001	6,373
Due to:				
Other governmental entities recipients	-	-	-	78,535,607
Federal government	-	-	-	303,205
Long term liabilities:				
Due within one year	8,259,359	-	8,259,359	10,594,239
Due in more than one year	11,140,427	-	11,140,427	10,019,224
Total liabilities	29,347,443	63,704,860	93,052,303	109,771,290
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	7,889,807	-	7,889,807	3,046,024
Restricted	1,838,667	518,369,926	520,208,593	22,786,219
Unrestricted	(15,686,687)	-	(15,686,687)	-
Total net assets (Deficit)	(\$5,958,213)	\$518,369,926	\$512,411,713	\$25,832,243

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF ACTIVITIES
JUNE 30, 2008

17

Funtions/Programs:	Program revenues		Net (expenses) Revenue Change in Net Assets Primary Government			Component Units
	Expenses	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total	
Primary Government:						
Governmental activities						
General and administrative	\$22,274,924	\$21,652,561	(\$622,363)	\$ -	(\$622,363)	\$ -
Work incentive	124,846,243	301,905	(124,544,338)	-	(124,544,338)	-
Occupational safety and health	2,898,744	3,026,593	127,849	-	127,849	-
Employment services	8,200,882	8,669,745	468,863	-	468,863	-
Unemployment services	21,729,288	22,906,672	1,177,384	-	1,177,384	-
Statistics and monitoring	1,148,930	1,180,695	31,765	-	31,765	-
Interest on long-term debt	346,306	-	(346,306)	-	(346,306)	-
Total governmental activities	181,445,317	57,738,171	(123,707,146)	-	(123,707,146)	-
Business-type activities:						
Unemployment Insurance	210,813,109	241,293,135	-	30,480,026	30,480,026	-
Temporary occupational disability insurance	2,694,545	14,064,693	-	11,370,148	11,370,148	-
Drivers' Social Security Insurance	981,728	5,316,148	-	4,334,420	4,334,420	-
Total business-type activities	214,489,382	260,673,976	-	46,184,594	46,184,594	-
Total primary government	\$395,934,699	\$318,412,147	(\$123,707,146)	\$46,184,594	-\$77,522,552	-
Component units:						
Right to Employment Administration	\$22,759,753	\$24,430,947	\$ -	\$ -	\$ -	\$1,671,194
Human Resources and Occupational Development Council	150,586,797	161,514,588	-	-	-	10,927,791
Vocational Rehabilitation Administration	86,744,082	98,249,908	-	-	-	11,505,826
Total net assets component units	\$260,090,632	\$284,195,443	-	-	-	\$24,104,811
General revenues:						
Interest			539,566	27,661,739	28,201,305	-
Other miscellaneous			-	22,269	22,269	-
Transfers			85,019,613	(85,019,613)	-	(4,171,763)
			85,559,179	(57,335,605)	28,223,574	(4,171,763)
Change in net assets			(38,147,967)	(11,151,011)	(49,298,978)	19,933,048
Net assets at beginning of year			32,189,754	529,520,937	561,710,691	5,899,195
Net assets at end of year			(\$5,958,213)	\$518,369,926	\$512,411,713	\$25,832,243

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Work Regulation and Occupational Safety	Temporary Nonoccupational Disability Insurance	Special Revenue Fund - State & Local Grants	Special Revenue Revenue Fund Federal Grants	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	\$ -	\$ -	\$ -	\$26,688,270	(5,528,483)	\$ -	\$21,159,787
Cash held by the Treasury Department of the Commonwealth of Puerto Rico	(1,459,323)	14,292,568	15,466,000	(50,011,470)	5,714,016	8,071,148	(7,927,061)
Total assets	<u>(1,459,323)</u>	<u>14,292,568</u>	<u>15,466,000</u>	<u>(23,323,200)</u>	<u>185,533</u>	<u>8,071,148</u>	<u>13,232,726</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	\$200	\$424,486	\$4,450,984	\$4,458,274	\$185,533	\$428,180	\$9,947,657
Total liabilities	<u>200</u>	<u>424,486</u>	<u>4,450,984</u>	<u>4,458,274</u>	<u>185,533</u>	<u>428,180</u>	<u>9,947,657</u>
Fund Balances							
Reserved for:							
Reserved for donations	-	-	-	-	-	303,551	303,551
Reserved for encumbrances	125,603	1,656,643	2,290,094	-	-	2,176,314	6,248,654
Reserved for work incentive	-	-	-	(26,784,143)	-	-	(26,784,143)
Specific purposes	-	12,211,439	8,724,922	(997,331)	-	2,131,575	22,070,605
Undesignated	(1,585,126)	-	-	-	-	3,031,528	1,446,402
Total fund balances (deficit)	<u>(1,459,523)</u>	<u>13,868,082</u>	<u>11,015,016</u>	<u>(27,781,474)</u>	<u>-</u>	<u>7,642,968</u>	<u>3,285,069</u>
Total liabilities and fund balances	<u>-\$1,459,323</u>	<u>\$14,292,568</u>	<u>\$15,466,000</u>	<u>-\$23,323,200</u>	<u>\$185,533</u>	<u>\$8,071,148</u>	<u>\$13,232,726</u>

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2008

19

Total Fund Balances per Fund Financial Statements	\$3,285,069
Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different because:	
Capital assets are not reported in the Fund Financial Statements because they are not current financial resources, but they are reported in the Statement of Net Assets.	34,170,953
Accumulated depreciation is not presented in the Fund Financial Statements, but it is reported net of Capital Assets in the Statement of Net Assets.	(24,014,449)
Long-term liabilities (Obligation Under Capital Lease) are not reported in the Fund Financial Statements because they are not due and payable, but they are presented in the Statement of Net Assets.	(2,172,081)
Long-term liabilities (Compensated Absences) are not reported in the Fund Financial Statements because they are not due and payable, but they are presented in the Statement of Net Assets.	<u>(17,227,705)</u>
Total Net Assets (Deficit) - Governmental Activities	<u>(\$5,958,213)</u>

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

REVENUES

	General Fund	Work Regulation and Occupational Safety	Temporary Nonoccupational Disability Insurance	Special Revenue Fund - State & Local Grants	Special Revenue Fund Federal Grants	Other Governmental Funds	Total Governmental Funds
Legislative appropriations from the Commonwealth of Puerto Rico	\$ -	\$18,189,772	\$ -	\$ -	\$ -	\$3,764,694	\$21,954,466
Intergovernmental - Federal Grants	-	-	-	-	35,783,705	-	35,783,705
Interest	-	-	-	539,566	-	-	539,566
Total revenues	-	18,189,772	-	539,566	35,783,705	3,764,694	58,277,737

EXPENDITURES

General and administrative	-	16,346,632	-	-	-	4,842,643	21,189,275
Work incentive	-	-	20,923,461	-	-	6,421,364	27,344,825
Occupational safety and health	-	-	-	-	3,024,941	-	3,024,941
Employment services	-	-	-	97,567,006	8,200,882	-	105,767,888
Unemployment services	-	-	-	-	21,748,615	-	21,748,615
Statistics and monitoring	-	-	-	-	1,172,437	-	1,172,437
Total expenditures	-	16,346,632	20,923,461	97,567,006	34,146,875	11,264,007	180,247,981

EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES

	-	1,843,140	(20,923,461)	(97,027,440)	1,636,830	(7,499,313)	(121,970,244)
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OTHER FINANCING SOURCES (USES)

Operating transfers - in (out)	-	-	11,783,352	69,309,261	(1,636,830)	5,563,830	85,019,613
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NET CHANGE IN FUND BALANCES

	-	1,843,140	(9,140,109)	(27,718,179)	-	(1,935,483)	(36,950,631)
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FUND BALANCES AT BEGINNING OF YEAR

	(1,459,523)	12,024,942	20,155,125	(63,295)	-	9,578,451	40,235,700
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FUND BALANCES AT END OF YEAR

	<u>(\$1,459,523)</u>	<u>\$13,868,082</u>	<u>\$11,015,016</u>	<u>(\$27,781,474)</u>	<u>\$ -</u>	<u>\$7,642,968</u>	<u>\$3,285,069</u>
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The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

21

Net Change in Fund Balances - Total Governmental Funds	(\$36,950,631)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets of those assets is allocated over their estimated useful lives as depreciation expense is the amount of capital assets recorded in the current period.	641,243
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in Governmental Funds.	(1,936,561)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of Activities, however, which is presented in the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net change of compensated absences	(1,291,952)
Repayment of obligation under capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount paid during the current period.	<u>1,389,934</u>
Change in Net Assets (Deficit) of Governmental Activities	<u>(\$38,147,967)</u>

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

22

	<u>Drivers' Social Security Insurance</u>	<u>Temporary Occupational Disability Insurance</u>	<u>Unemployment Insurance</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$20,931,368	\$1,231,268	\$1,010,512	\$23,173,148
Cash held by Treasury Department of the Commonwealth of Puerto Rico	14,636,640	23,216,413	(128,708,772)	(90,855,719)
Cash held by the Treasury Department of the United States of America	-	-	547,314,679	547,314,679
Investments	-	34,698,392	-	34,698,392
Receivables:				
Insurance taxes	1,158,982	3,424,078	57,994,641	62,577,701
Interest	35,471	259,078	1,309,781	1,604,330
Other	25,893	457,765	3,004,016	3,487,674
Due from other funds	-	74,581	-	74,581
Total assets	<u>\$36,788,354</u>	<u>\$63,361,575</u>	<u>\$481,924,857</u>	<u>\$582,074,786</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Benefits payable	\$461,968	\$767,261	\$52,973,463	\$54,202,692
Federal interest	-	-	614,586	614,586
Due to other funds	-	-	74,581	74,581
Deferred revenues	19,187	17,674	8,776,140	8,813,001
Total liabilities	<u>481,155</u>	<u>784,935</u>	<u>62,438,770</u>	<u>63,704,860</u>
NET ASSETS				
Reserved for:				
Unemployment Insurance benefits	-	-	419,486,087	419,486,087
Temporary non occupational disability insurance benefits	-	62,576,640	-	62,576,640
Drivers' Social Security Insurance benefits	36,307,199	-	-	36,307,199
Total net assets	<u>36,307,199</u>	<u>62,576,640</u>	<u>419,486,087</u>	<u>518,369,926</u>
Total liabilities and net assets	<u>\$36,788,354</u>	<u>\$63,361,575</u>	<u>\$481,924,857</u>	<u>\$582,074,786</u>

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

23

	Drivers' Social Security Insurance	Temporary Occupational Disability Insurance	Unemployment Insurance	Total
OPERATING REVENUES				
Insurance taxes	\$5,316,148	\$14,064,693	\$237,891,239	\$257,272,080
Federal contributions	-	-	3,401,896	3,401,896
Total operating revenues	5,316,148	14,064,693	241,293,135	260,673,976
OPERATING EXPENSES				
Unemployment and disability assistance	981,728	2,694,545	210,813,109	214,489,382
Total operating expenses	981,728	2,694,545	210,813,109	214,489,382
OPERATING INCOME	4,334,420	11,370,148	30,480,026	46,184,594
NONOPERATING REVENUES				
Interest and investment revenue	772,611	889,139	25,999,989	27,661,739
Other miscellaneous	-	-	22,269	22,269
Total nonoperating revenues	772,611	889,139	26,022,258	27,684,008
INCOME BEFORE TRANSFERS	5,107,031	12,259,287	56,502,284	73,868,602
TRANSFERS OUT	(3,863,095)	(24,466,662)	(56,689,856)	(85,019,613)
CHANGE IN NET ASSETS	1,243,936	(12,207,375)	(187,572)	(11,151,011)
NET ASSETS AT BEGINNING OF YEAR	35,063,263	74,784,015	419,673,659	529,520,937
NET ASSETS AT END OF YEAR	\$36,307,199	\$62,576,640	\$419,486,087	\$518,369,926

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

24

	Drivers' Social Security Insurance	Temporary Occupational Disability Insurance	Unemployment Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from insurance taxes	\$5,203,758	\$14,041,725	\$238,515,753	\$257,761,236
Receipts from interests and other	853,215	889,139	26,205,931	27,948,285
Receipts from federal government			3,401,896	3,401,896
Payments for unemployment and disability benefits	(854,970)	(2,705,436)	(223,530,558)	(227,090,964)
Internal activity payments to other funds	(3,863,095)	(24,466,662)	(56,689,856)	(85,019,613)
Net cash provided (used) by operating activities	1,338,908	(12,241,234)	(12,096,834)	(22,999,160)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Increase on Investments	-	1,325,744	-	1,325,744
Net cash provided by investing activities	-	1,325,744	-	1,325,744
Net change in cash	1,338,908	(10,915,490)	(12,096,834)	(21,673,416)
Cash at beginning of year	34,229,100	35,363,171	431,713,253	501,305,524
Cash at end of year	<u>\$35,568,008</u>	<u>\$24,447,681</u>	<u>\$419,616,419</u>	<u>\$479,632,108</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities				
Change in net assets	\$1,243,936	(\$12,207,375)	(\$187,572)	(\$11,151,011)
Adjustments to reconcile change in net assets to net cash used by operating activities:				
Change in assets and liabilities:				
Accounts receivable:				
Insurance taxes	(103,910)	120,718	3,395,389	3,412,197
Interest	80,604	-	183,673	264,277
Other	-	(183,302)	(796,626)	(979,928)
Benefits payable	126,758	(10,890)	(12,677,834)	(12,561,966)
Due to other funds	-	39,615	(39,615)	-
Deferred revenues	(8,480)	-	(1,974,249)	(1,982,729)
Total adjustments	94,972	(33,859)	(11,909,262)	(11,848,149)
Net cash provided (used) by operating activities	\$1,338,908	(\$12,241,234)	(\$12,096,834)	(\$22,999,160)

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

25

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$4,024,506</u>
Total assets	<u><u>\$4,024,506</u></u>
LIABILITIES	
Accounts payable	<u>\$4,024,506</u>
Total liabilities	<u><u>\$4,024,506</u></u>

The notes to the financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

26

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity — Basis of Presentation

The Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department) is an Executive Department of the Commonwealth of Puerto Rico created by Law No. 15 of April 14, 1931, as amended, to promote the working class welfare, improve the job conditions in Puerto Rico and help reduce unemployment.

The Governor of the Commonwealth of Puerto Rico appoints the Secretary of the Department. The Secretary hires other members of the Department's management. The activities under the purview of management are within the scope of the reporting entity and management is accountable to the Secretary of the Department who is also accountable to the Governor of the Commonwealth of Puerto Rico for the activities being managed.

In addition, as required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Department (the primary reporting entity) and its component units.

The accompanying basic financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as described by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, the GASB issued Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement establishes new financial reporting requirements for state and local governments. The Department adopted the provisions of GASB No. 34 as well as other statements referred to below as of July 1, 2004. They require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASB No. 34, the Department should prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

27

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity – Basis of Presentation (Continued)

In addition, other GASB Statements and Interpretations were required to be implemented in conjunction with GASB No. 34. Therefore, the Department has implemented the following GASB Statements: GASB No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus, GASB No. 38, Certain Financial Statement Note Disclosures; GASB No. 39, Determining Whether Certain Organizations are Component Units; GASB No. 41, Budgetary Comparison Schedules – Perspective Differences; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The accompanying basic financial statements present the financial position and the results of operations of the Department and its various funds. The basic financial statements are presented as of June 30, 2008, and for the fiscal year then ended. The more significant of the accounting policies used in the preparation of the basic financial statements are described below and, where appropriate, subsequent pronouncements will be referenced.

Component Units

In evaluating the Department as a reporting unit, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB, as amended by GASB Statement No. 39.

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Department's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Department's balances and transactions.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

28

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

The following component units, except the Future Entrepreneurs and Workers' Training Administration, consistent with GASB No. 14, have been discretely presented in the accompanying financial statements because of the nature of the services they provide and the Department's financial oversight over them. The financial statements of The Future Entrepreneurs and Workers' Training Administration were prepared using the cash basis method of accounting, which is a different reporting model from the primary government. Therefore, the financial statement of that component unit can not be presented with the Department's Financial Statements.

The Right to Employment Administration (ADT for its abbreviation in Spanish)

ADT is an instrumentality of the Commonwealth of Puerto Rico created by Law No. 115 of June 21, 1968, known as "Right to Employment Act". ADT is ascribed to the Puerto Rico Department of Labor and Human Resources pursuant to the provisions of Law No. 100, approved on June 23, 1977, and is responsible for the implementation of policies and the administration of federal programs aimed at providing work opportunities through the island.

ADT is governed by an Administrator appointed by the Governor with the consent of the Senate. In addition, a Consultative Board composed of the Secretary of Labor, the Secretary of Agriculture, the Secretary of Transportation and Public Works, the Secretary of Education and five additional members appointed by the Governor, with the consent of the Senate, will advise the Administrator in the implementation of the Right to Employment Act.

Future Entrepreneurs and Workers' Training Administration

The Future Entrepreneurs and Workers Training Administration (AAFET, for its abbreviation in Spanish) was created by Law No. 224 of August 6, 1999 to provide educational improvement services, vocational training, work experience, supportive service, and community action improvement to young people in Puerto Rico. Its operations are funded through an annual budget appropriation approved by the legislative bodies of the Commonwealth of Puerto Rico, and through financial assistance received from federal agencies. AAFET operates through several resident centers, workshops, and various other training programs.

Human Resources and Occupational Development Council

The Human Resources and Occupational Development Council (the Council, formerly known as the Technological Occupational Education Council), was created by Law No. 97 of December 18, 1991. The Council has the responsibility of the administration, support and to control the financial accountability, monitoring, evaluation and program operation of all sub-recipients benefiting with the Workforce Investment Act (WIA) and Welfare-to Work Grant to States (WTW) funds.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

29

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

Vocational Rehabilitation Administration

The Vocational Rehabilitation Administration (the Administration) was created by Law No. 414 of May 13, 1947. The Administration is ascribed to the Puerto Rico Department of Labor and Human Resources pursuant to the provisions of Law No. 97 of June 10, 2000.

The Vocational Rehabilitation Administration provide rehabilitation services to physical and mentally impairment individuals consistent with the strengths, resources, priorities, interests, abilities and capacities to assist them to obtain an employment, improve their quality of life and self-esteem.

Complete financial statements of the individual component units can be directly obtained from their administration Departments as follows:

Right to Employment Administration
PO Box 364452
San Juan, PR 00936-4452

Future Entrepreneurs and Workers Training Administration
520 Ponce de León Avenue, Suite #1
San Juan, PR 00901-2304

Human Resources and Occupational Development Council
PO Box 192159
San Juan, PR 00919-2159

Vocational Rehabilitation Administration
PO Box 191118
San Juan, PR 00919-1118

The following pages present combined financial statements of the discretely presented component units, except for the Future Entrepreneurs and Workers' Administration (AAFET), which were prepared using the cash basis method of accounting.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

30

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Right to Employment Administration</u>	<u>Human Resources and Occupational Development Council</u>	<u>Vocational Rehabilitation Administration</u>	<u>Total Discretely Presented Component Units</u>
ASSETS				
Cash and cash equivalents	\$ 2,932,427	\$ 55,788	\$ 5,367,061	\$ 8,355,276
Due from:				
Federal government	-	113,394,014	-	113,394,014
Primary government	3,183,499	-	-	3,183,499
Other governmental entities	3,840,537	297,506	-	4,138,043
Other funds	25,507	-	-	25,507
Receivables, net	-	46,431	3,301,039	3,347,470
Prepaid expenses	113,700	-	-	113,700
Capital assets net of accumulated depreciation	<u>328,526</u>	<u>574,165</u>	<u>2,143,333</u>	<u>3,046,024</u>
Total assets	<u>\$10,424,196</u>	<u>\$114,367,904</u>	<u>\$10,811,433</u>	<u>\$135,603,533</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

31

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2008

	<u>Right to Employment Administration</u>	<u>Human Resources and Occupational Development Council</u>	<u>Vocational Rehabilitation Administration</u>	<u>Total Discretely Presented Component Units</u>
LIABILITIES:				
Bank overdraft	\$ -	\$ 47,195	\$ -	\$ 47,195
Accounts payable and accrued liabilities	7,067,509	475,118	2,722,820	10,265,447
Due to:				
Sub-recipients	838,714	68,983,990	8,712,903	78,535,607
Federal government	-	303,205	-	303,205
Deferred revenues	6,373	-	-	6,373
Compensated absences:				
Due within one year	1,664,233	1,179,117	7,750,889	10,594,239
Due after one year	<u>1,807,347</u>	<u>1,225,751</u>	<u>6,986,126</u>	<u>10,019,224</u>
Total liabilities	<u>11,384,176</u>	<u>72,214,376</u>	<u>26,172,738</u>	<u>109,771,290</u>
NET ASSETS				
Invested in capital assets	328,526	574,165	2,143,333	3,046,024
Restricted	<u>(1,288,506)</u>	<u>41,579,363</u>	<u>(17,504,638)</u>	<u>22,786,219</u>
Total net assets (deficit)	<u>\$ (959,980)</u>	<u>\$42,153,528</u>	<u>\$(15,361,305)</u>	<u>\$ 25,882,243</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF ACTIVITIES
JUNE 30, 2008

	<u>Right to Employment Administration</u>	<u>Human Resources and Occupational Development Council</u>	<u>Vocational Rehabilitation Administration</u>	<u>Total Discretely Presented Component Units</u>
PROGRAM REVENUE, OPERATING GRANTS AND CONTRIBUTIONS	\$24,430,947	\$ 161,514,588	\$ 98,249,908	\$ 284,195,443
EXPENSES	<u>(22,759,753)</u>	<u>(150,586,797)</u>	<u>(86,744,082)</u>	<u>(260,090,632)</u>
NET REVENUE (EXPENSE) AND CHANGE IN NET ASSETS	1,671,194	10,927,791	11,505,826	24,104,811
TRANSFERS	- -	<u>(4,171,763)</u>	- -	<u>(4,171,763)</u>
CHANGES IN NET ASSETS	1,671,194	6,756,028	11,505,826	19,933,048
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	<u>(2,631,174)</u>	<u>35,397,500</u>	<u>(26,867,131)</u>	<u>5,899,195</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (959,980)</u>	<u>\$ 42,153,528</u>	<u>\$ (15,361,305)</u>	<u>\$ 25,832,243</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

33

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity — Basis of Presentation (continued)

As previously mentioned, the Future Entrepreneurs and Workers' Training Administration (FEWTA) financial statements were prepared using the cash basis method of accounting. Under this method, cash or funds transferred-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Cash Receipts and Disbursement presented by FEWTA can not be combined with the financial statements of the Department of Labor and Human Resources. Following is a condensed statement of cash receipts and disbursements of FEWTA for the year ended June 30, 2008.

COMMONWEALTH OF PUERTO RICO
FUTURE ENTREPRENEURS AND WORKERS'
TRAINING ADMINISTRATION
CONDENSED STATEMENT OF
CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2008

	<u>Receipts</u>	<u>Disbursements</u>
State Funds	<u>\$16,135,195</u>	<u>\$16,728,349</u>
Federal Funds	<u>\$ 2,292,186</u>	<u>\$ 2,175,837</u>
Total memorandum only	<u>\$18,427,381</u>	<u>\$18,904,186</u>

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

34

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASB No. 33, *Accounting and financial Reporting for Nonexchange Transactions* (The Department may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

There are essentially two types of revenue. For the majority of grants, moneys must be expended by the Department on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Modifications to the accrual basis of accounting include the following:

- Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2008, has been reported only in the government-wide financial statements.
- Principal and interest payments on long term debt are recorded as expenditures. The outstanding balance of long term note payable at June 30, 2008, has been reported only in the Government-Wide Financial Statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statements Presentation

Financial information of the Department should be presented in the report as follow:

1. Management's Discussion and Analysis (MD&A) introduces the basic financial statements and provided an analytical overview of the Department's financial activities.
2. The government-wide financial statement (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Department and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Department as an entity and the change in aggregates financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

The Department reports the following major funds and fund types in this report:

Governmental Funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of intergovernmental revenue.

Special Revenue Fund – State and Local Grants – is the accounting entity in which revenues derived from local funds, state or other restricted revenue source is accounted for the uses and limitations specified by state statutes.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

36

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statements Presentation (Continued)

Special Revenue Fund - Federal Grants - is the accounting entity in which revenues derived from federal grants, is accounted for. The uses and limitations of each special revenue fund are specified by federal and state statutes.

Proprietary Fund - these are the funds that account for the operations of the Department that are financed and operated in a manner similar to those often found in the private sector. The funds included in this category are the Unemployment, Disability and Drivers Insurance Programs.

Fiduciary Funds - These are the funds that account for the assets held by the Department as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the Department's own programs.

Government-wide Financial Statements

The focus of the **Statement of Net Assets** is designed to be similar to bottom line results for the Department and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The **Statement of Activities** is focused on both the gross and net costs per functional category. The statement reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Department's actual experience conforms to the budgeted fiscal plan. Since the governmental fund statements are presented in different measurement focus and basis of accounting than the government-wide statements, the reconciliation (adjustments) is presented and separate explanation for each differences.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

37

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Financial Statements Presentation (Continued)

The Department reports its financial position (**Balance Sheet**) and results of operations (**Statement of Revenues, Expenditures and Changes in Fund Balance**) in funds, which are considered separate accounting entities. The operations of each fund are accounted for with a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal financial and contractual provisions. The new model as defined is GASB No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses or either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Department reports the following funds:

- General Fund
- Work Regulation and Occupational Safety
- Temporary Non-occupational Disability Insurance
- Special Revenue Funds- State & Local Grants
- Special Revenue Funds Federal Grants
- Other Governmental Funds

GASB No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental columns in the government-wide **Statement of Net Assets**.

D. Budgetary Data

The budget of the Department, if any, should be legally enacted through the approval of a Joint Resolution from the legislative bodies of the Commonwealth of Puerto Rico. Subsequent to the enactment, the Office of Management and Budget of the Commonwealth of Puerto Rico has the authority to make the necessary adjustments to the budget without legislative approval.

The Department's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. Until June 30, 2001, the 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 encumbrances were 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 for the settlement of claims and judgments against the Department, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

38

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Data (continued)

Under the statutory basis of accounting, the Department 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 governmental funds, encumbrance accounting is a significant aspect of budgetary control.

During the fiscal year 2007-2008, the central government does not approved any funds for the Department to be accounted for in the general fund.

Since no budget was approved by the central government for the Department's general fund, the Budgetary Comparison Schedule-General Fund (Non-GAAP) is not presented as supplementary information in the basic financial statements.

The budget prepared for each of the Special Revenue Fund components is based on a program period, which is not necessarily the same as the Department's fiscal year. Accordingly, it is not practical to present an annual comparison of the Budget and Actual for the Special Revenue Fund.

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is used in the Governmental Funds. For budgetary purposes, appropriations lapse at fiscal year end, except for the portion related to encumbered amounts. Encumbrances outstanding at the year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

39

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

Cash accounts of the Department as presented in the Governmental Funds are mainly held by the Department of the Treasury of the Commonwealth of Puerto Rico. All cash receipts and disbursements of the Department are made through the Government Development Bank for Puerto Rico (GDB), an internal service unit of the Commonwealth of Puerto Rico. GDB maintains separate codes at the general government account to identify each, governmental unit. Cash balances not held by GDB are controlled by various special disbursement officials and deposited in qualified depositories. No collateral was maintained for cash accounts in GDB as of June 30, 2008. The Department considers currency on hand, demand deposits and highly liquid investments (including restricted cash purchased with a maturity of three months or less) to be cash equivalents.

The Right to Employment Administration is authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept in separate accounts in the name of the component unit. There were no bank accounts with commercial banks at June 30, 2008. Also, the Administration has all bank accounts with GDB. Deposits with GDB are not collateralized, however, are guaranteed by the Commonwealth of Puerto Rico.

G. Investments

Investments include U.S. Government and U.S. Government agencies obligations, mortgage backed securities, local governmental obligations, investment contracts, and corporate debt and equities. Investment securities are presented at fair value. Changes in the fair value of investment are presented as a net increase/(decrease) in the fair value of investments in the combined statement of revenues, expenditures and changes in fund balances. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

H. Receivables

Tax receivables in the proprietary funds were calculated based on actual collections of unemployment, disability and drivers' insurance contributions from taxpayers during the 90 days following the end of the fiscal year.

I. Inventories

The discretely presented component units use the purchase method to account for inventory. Under the purchase method, inventory is recorded as expenditure when purchased, however, inventory on hand at year end is reported as an asset in the general fund. Reported inventory, if any, is valued at cost and is equally offset by a fund balance reserve, which indicates it is unavailable for appropriations, despite being reported as an asset.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Capital assets which include property and equipment are reported in the governmental activities column in the Government-wide Financial Statements. Such assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

K. Long term obligations

The liabilities reported in the government-wide financial statement included the Department's long term debt and compensated absences obligations (vacation and sick leave).

L. Reservations of Fund Balances

Reservations of fund balances represent portions of fund balances that are legally segregated for a specific future use or not appropriate for expenditure. The Department has the following reservations of fund balances:

Encumbrances — Represents future expenditures under purchase orders and other commitments. These committed amounts represent a reservation of unexpired appropriations and generally will become liabilities in future periods as goods or services are received.

Unemployment Insurance Benefits — Represents net assets available to fund unemployment benefit payments.

Temporary Non occupational Disability Insurance Benefits — Represents net assets available for funding disability benefit payments.

Drivers' Social Security Insurance Benefits — Represents net assets available to fund drivers' benefit payments.

Work Incentive — Represents net assets available to promote job opportunities and the creation of high demand employments in current markets.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

The employees of the Department are granted thirty (30) days of vacation annually up to a maximum of sixty (60) days and eighteen (18) days of sick leave annually up to a maximum of ninety (90) days. Vacation time accumulated is fully vested to the employees from the first day of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Department accrued a liability for compensated absences, which meet the following criteria:

1. The Department's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation related to rights that vest or accumulated.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Department has accrued a liability for compensated absences, which has been earned but not taken by Department's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

N. Inter-fund and Intra-Entity Transactions

The Department has the following types of transactions among funds:

- a. Operating Transfers - Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfer-out" by the disbursing fund.
- b. Intra-Entity Transaction - Transfers between the funds of the primary government are reported as inter-fund transfers with receivables and payables presented as amounts due to and due from other funds.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

42

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Prepaid Items

Prepaid balances are for payments made by the discretely presented component units in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

P. Risk Management

The Department 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 commercial insurance coverage is negotiated by the Department of the Treasury of the Commonwealth of Puerto Rico, and the cost is charged to the Department's account with the Department of the Treasury.

Q. Estimated Benefits Payable

Estimated benefits payable in the proprietary fund were determined based on actual payments of disability and drivers' to beneficiaries during the 90 days following the end of the fiscal year.

Also, unemployment benefits payable were determined based on a report generated by a service organization.

R. Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Department has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Department has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

S. Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted of the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

43

NOTE 2 — CASH, CASH EQUIVALENTS AND CASH HELD BY THE DEPARTMENT OF THE TREASURY

The Department and discretely presented component units are authorized to deposit only in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico, and such deposits should be kept separate accounts in the name of the Department. The Department's deposits as of June 30, 2008 in commercial banks were entirely covered by Federal Deposit Insurance Corporation (FDIC) or by collateral held by the Puerto Rico Department of the Treasury in the Department's name. The amounts deposited in the Government Development Bank for Puerto Rico, a component unit of the Commonwealth of Puerto Rico, are uncollateralized.

In addition, the Department has deposits that are held by the Puerto Rico Department of the Treasury (as fiscal agent of the Department). These amounts are uncollateralized.

Following is a description of the categories of credit risk:

Category	Description
1	The deposits are collateralized by Federal Deposit Insurance Corporation or collateralized by securities pledged with the Department of the Treasury of the Commonwealth of Puerto Rico in the Department's name.
2	The deposits are collateralized by securities held by the pledging financial institution's trust department or agent in the Department's name.
3	The deposits are uncollateralized.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

44

NOTE 2 – CASH, CASH EQUIVALENTS AND CASH HELD BY THE DEPARTMENT OF THE TREASURY
(CONTINUED)

	Credit Risk Category			Bank Balance	Carrying Amount
	1	2	3		
Cash and cash equivalents					
Fiduciary Fund (Restricted)	-	-	\$ 4,024,506	\$ 4,084,876	\$ 4,024,506
Governmental Fund (Restricted)	-	-	21,159,787	16,809,947	21,159,787
Cash held by the Treasury Department of the Commonwealth of Puerto Rico Governmental Fund	-	-	(6,837,807)	(16,086,865)	(6,837,807)
Proprietary Fund (Restricted)	-	-	23,173,148	25,982,322	23,173,148
Cash held by the Treasury Department of the Commonwealth of Puerto Rico Proprietary Fund	-	-	(94,126,827)	7,001,196	(94,126,827)
Cash held by the Treasury Department of United States of America Proprietary Fund (Restricted)	547,314,679	-	-	547,314,679	547,314,679

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

45

NOTE 3 — CASH HELD BY THE UNITED STATES TREASURY

The Department has \$547,314,679 deposit with the United States Government. Such deposit represents unemployment insurance taxes collected from employers, which are transferred to the Federal Unemployment Insurance Trust Fund in the United States Treasury. Funds held by the United States Treasury bear interest at a fluctuating rate according to the yield obtained on the investments made by the U.S. Federal Unemployment Insurance Trust Fund.

NOTE 4 — INVESTMENTS

Pursuant to statutory authority, the Secretary of the Treasury of the Commonwealth of Puerto Rico may invest in obligations of the United States, the Commonwealth of Puerto Rico or in pools of obligations of the municipalities of Puerto Rico, among others.

The Department's investments are categorized to provide an indication of the level of collateral risk assumed by the Department at year end. Risk categories are described as follows:

Category 1: Insured or registered, or securities held by the Department or agents in the Department's name

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Department's name.

Category 3: Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the Department's name.

Balances held in each category for the fiscal year ended June 30, 2008, were not available.

NOTE 5 — INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist of legislative appropriations from other instrumentalities of the Commonwealth of Puerto Rico.

NOTE 6 — FEDERAL CONTRIBUTIONS

Federal contributions accounted for in the Special Revenue Fund are those received for the establishment of programs that will promote the working class welfare and to finance the administration costs of the Puerto Rico Unemployment Insurance Program. For the discretely presented component units, the special revenue fund accounts for the resources provided under the Workforce Investment Act (WIA), Welfare-to-Work, Jobs Opportunities and Basic Skills Program and Nutritional Assistance Program for Puerto Rico.

Federal contributions are also received to reimburse the benefits paid to unemployed ex-military and civilian ex-federal employees, whose unemployment is caused by a presidential declared disaster under the Disaster Relief Act, and adversely affected work under the Trade Act.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

46

NOTE 7 — INSURANCE TAXES

Insurance taxes are levied each quarter to employers and/or employees registered under the State Unemployment Insurance, the Temporary Non-occupational Disability Insurance and the Driver's Social Security Insurance Programs.

State Unemployment Insurance Program

The structure of the Federal-State UI Program partnership is based upon Federal law; however, it is implemented primarily through State law. Unless otherwise noted, responsibilities of the U.S. Department of Labor (DOL) include: (1) allocating available administrative funds among States; (2) administering the Unemployment Trust Fund (UTF) through the U.S. Department of the Treasury and monitoring activities of the UTF; (3) establishing program performance measures; (4) monitoring State performance; (5) ensuring conformity and substantial compliance of State law and operations with Federal law; and (6) setting broad overall policy for program administration. State UI program operations are conducted by the Department.

State responsibilities include: (1) establishing specific, detailed policies and operating procedures which comply with the requirements of Federal laws and regulations; (2) determining the State UI tax structure; (3) collecting State UI contributions from employers (commonly called "unemployment taxes"); (4) determining claimant eligibility and disqualification provisions; (5) making payment of UC benefits to claimants; (6) managing the program's revenue and benefit administrative functions; (7) administering the programs in accordance with established policies and procedures; and (8) enacting State UC law that conforms with Federal UC law.

The Federal Unemployment Tax Act (FUTA) imposes a Federal tax on covered employers. Currently, the FUTA tax on covered employment (generally Employment subject to a State UI tax) is 6.2 percent of the first \$7,000 of covered employee wages. Employers, however, receive two credits against the FUTA tax. One credit is equal to the amount of State UI tax paid by the employer. The employer receives this credit when the State UI law, and its application, conforms and substantially complies with FUTA requirements. A second credit is awarded only to employers in States, which have a federally approved experience-rate State UI tax system. All States currently meet the Federal criteria for both credits to be applicable to the States' employers. The two credits combined cannot exceed 5.4 percent of taxable employee wages.

FUTA revenues from the remaining 0.8 percent are collected by the IRS and deposited into the general fund of the U.S. Treasury, which by statute are appropriated to the UTF. FUTA revenues are used primarily to finance Federal and State administrative expenses, the Federal share of EB and Advances to States whose UTF account balances are low or exhausted. DOL allocates available administrative grant funds (as appropriated by Congress) to States based on forecasted workload and costs and adjusted for increases or decreases in workload during the current year.

The quarterly tax rate imposed for the State Unemployment Insurance Program is computed based on experience rates determined for each employer individually. In addition, a special tax of 1% of taxable compensation will be collected from all nongovernmental employers to promote activities related to the creation of jobs and other related working initiatives. However, the total tax imposed will never be more than 5.4% of the taxable salaries as established by Federal regulations.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

47

NOTE 7 — INSURANCE TAXES (CONTINUED)

Temporary Non-occupational Disability Insurances Program

This program was established by Law #139 approved on June 26, 1968, and consists of a benefit plan for workers that suffered loss of wages due to temporary disability related to illness or accident not connected with the employment.

A tax of .6% is levied by the program of which the employer and employee pays .3% each. Taxable amount is limited to the first \$9,000 of the employee's yearly salary. Contributions received under the program are accounted for in the proprietary fund and are deposited in an interest bearing account to provide for future claims, as established by law.

Drivers' Social Security Insurance Program

This program was established by Law #428 approved on May 15, 1950 and provides benefits to workers that use motor vehicles as part of their job duties. The program's benefits include payments to claimants due to death, disability and other benefits to dependents. Funding for the program is provided by a quarterly contribution of eighty cents per employee of which the employer pays thirty cents and fifty cents are paid by the employee.

Taxes and contributions of all programs are due the next day following the levy date, although a 30 day grace period is provided. All of the above taxes and contributions are recognized as revenue in the proprietary fund.

Insurance taxes for the year ended June 30, 2008, consist of:

Unemployment Insurance	<u>\$ 237,891,239</u>
Temporary Non-occupational Disability Insurance	<u>\$ 14,064,693</u>
Drivers' Social Security Insurance	<u>\$ 5,316,148</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

48

NOTE 8 — BENEFITS

Benefits provided under the programs administered by the Department are as follows:

Unemployment Benefits

Unemployment benefits provided under the Regular Unemployment (UC) and the Extended Benefits (EB) programs.

UC provides benefits to workers generally after a waiting period of one week of unemployment, provided that each claimant has worked during a base period generally established as the first 4 of the last 5 completed calendar quarters prior to filing the claim. A waiting period is defined as a non compensable period of unemployment for such acts as leaving voluntarily without good cause, discharge for misconduct connected with work, and refusal of suitable work. The normal benefit will be dependable on the worker's age and weeks of work covered employment in the base period.

EB provides benefits for claimants that have exhausted the UC. To be eligible for a work of EB, a claimant must apply for and be able to and available to accept suitable work, if offered. What constitutes suitable work is dependent on a required evaluation of the claimant's employment prospects and as part of this process the claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" that he or she has done so.

Disability Benefits

Disability benefits are provided for a maximum of 26 weeks to workers that have suffered accidents or illness not related to the work place. Disbursements per week will range from \$12 to \$113 and are dependent on the claimant's salary. In order to qualify for benefits, claimants must also comply with certain working time as established in the regulations.

Drivers' insurance benefits

Workers claiming benefits under this program must have worked at least 25 weeks prior to any claim related to disability benefits, and at least 10 weeks for death benefits. Benefits payable are calculated in a similar fashion as benefits paid in the disability program, but claimants under the Drivers' Insurance program must be workers that use a motor vehicle-as part of their primary job duties.

Total benefits provided by the Department during the year under the above mentioned programs were as follows:

Unemployment Insurance	<u>\$ 210,813,109</u>
Temporary Non-Occupational Disability Insurance	<u>\$ 2,696,545</u>
Drivers' Social Security Insurance	<u>\$ 981,728</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

49

NOTE 9 — OPERATING TRANSFERS

Legally required transfers are reported when incurred as "Operating transfers — in" by the recipient fund and as "Operating transfers — out" by the disbursing fund. Operating transfers for the fiscal year ended June 30, 2008, consist of:

Governmental Funds	
Transfers in (out):	
Temporary Non-occupational Disability Insurance	\$ 11,783,352
Special Revenue Fund – State & Local Grants	69,309,261
Special Revenue Fund – Federal Grants	(1,636,830)
Other Governmental Funds	<u>5,563,830</u>
Total Governmental Funds	<u>\$ 85,019,613</u>
Proprietary Funds	
Transfer in (out):	
Drivers' Social Security Insurance	(3,863,095)
Temporary Occupational Disability Insurance	(24,466,662)
Unemployment Insurance	<u>(56,689,856)</u>
Total Proprietary Funds	<u>\$ (85,019,613)</u>

NOTE 10 — CAPITAL ASSETS

The balance of Department's Capital Assets as of June 30, 2008, consisted of the following:

	Balance
	<u>June 30, 2008</u>
Building under capital lease	\$ 11,499,615
Furniture, fixtures and equipment	<u>22,671,012</u>
	34,170,627
Less accumulated depreciation	<u>(24,014,123)</u>
	<u>\$ 10,156,504</u>

The Department has not maintained complete and adequate records related to the Capital Assets reported in governmental activities of the government-wide financial statements and, therefore, such condition would affect the amounts of assets, net assets, and expenses of the governmental activities. The Department expects to compiled documents and other information during the next fiscal years in order to attain complete and accurate records of its Capital Assets.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

50

NOTE 10 — CAPITAL ASSETS (CONTINUED)

The activity in the capital assets of the component units for the fiscal year ended June 30, 2008, was as follows:

Right to Employment Administration

<u>Capital Assets</u>	<u>Balances July 1, 2007</u>	<u>Additions</u>	<u>Retirements, dispositions And transfers</u>	<u>Balances June 30, 2008</u>
Vehicles, equipment, furniture and fixtures	\$ 1,947,695	\$ 5,934	\$ -	\$ 1,953,629
Less accumulated depreciation	<u>(1,549,183)</u>	<u>(75,920)</u>	<u>- -</u>	<u>(1,625,103)</u>
	<u>\$ 398,512</u>	<u>\$ (69,986)</u>	<u>\$ - -</u>	<u>\$ 328,526</u>

Human Resources and Occupational Development Council

<u>Capital Assets</u>	<u>Balances July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances June 30, 2008</u>
Equipment	\$ 437,757	\$ -	\$ (5,137)	\$ 432,620
Motor vehicles	1,002,023	53,214	-	1,055,237
Office equipment	<u>42,915</u>	<u>- -</u>	<u>- -</u>	<u>42,915</u>
	<u>1,482,695</u>	<u>53,214</u>	<u>(5,137)</u>	<u>1,530,772</u>
Less accumulated depreciation:				
Equipment	(342,599)	(19,689)	4,623	(357,665)
Motor vehicles	(491,922)	(75,368)	-	(567,290)
Office equipment	<u>(26,134)</u>	<u>(5,518)</u>	<u>- -</u>	<u>(31,652)</u>
	<u>(860,655)</u>	<u>(100, 575)</u>	<u>4,623</u>	<u>(956,607)</u>
	<u>\$ 622,040</u>	<u>\$ (47,361)</u>	<u>\$ (514)</u>	<u>\$ 574,165</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 10 — CAPITAL ASSETS (CONTINUED)

Vocational Rehabilitation Administration

<u>Capital Assets</u>	<u>Balances June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances June 30, 2008</u>
Equipment	\$ 7,566,320	\$ 28,140	-	\$ 7,594,460
Furniture	140,065	-	-	140,065
Vehicles	<u>109,460</u>	<u>-</u>	<u>-</u>	<u>109,460</u>
	<u>7,815,845</u>	<u>28,140</u>	<u>-</u>	<u>7,843,985</u>
Less Accumulated depreciation				
Equipment	(5,173,595)	(347,050)	-	(5,520,645)
Furniture	(104,083)	(10,632)	-	(114,715)
Vehicle	<u>(50,060)</u>	<u>(15,232)</u>	<u>-</u>	<u>(65,292)</u>
	<u>(5,327,738)</u>	<u>(372,914)</u>	<u>-</u>	<u>(5,700,652)</u>
	<u>\$ 2,488,107</u>	<u>\$ (344,774)</u>	<u>\$ -</u>	<u>\$ 2,143,333</u>

Future Entrepreneurs and Workers Training Administration

The Administration prepared its financial statements using the cash basis method of accounting. Therefore, the information of capital assets is not available for presentation in the financial statements.

NOTE 11 — RETIREMENT SYSTEMS

All employees of the Department and its component units participate in the Employees' Retirement System of the Government of Puerto Rico and its instrumentalities. Also, teachers that work in the Future Entrepreneurs and Workers Training Administration participate in the Puerto Rico System of Annuities and Pensions for Teachers.

Each system is independent, thus assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants.

The retirements systems issue publicly available financial reports that include their financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the corresponding administrator of each retirement system.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

52

NOTE 11 — RETIREMENT SYSTEMS (CONTINUED)

Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS)

Plan Description

The ERS is the administrator of a single-employer (as related to the Commonwealth financial reporting entity) defined-benefit pension plan established by the Commonwealth. The System was created under Act No. 447 (the "Act"), approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth and its instrumentalities and certain municipalities and component units not covered by their own

The System provides retirement, death and disability benefits. 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 ERS. The annuity for which a plan member is eligible is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

On September 24, 1999, an amendment to the Act 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, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government 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 employees' contribution (with a minimum of 8.275% of the employees' 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; (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. Disability pensions are not being granted under System 2000. The employer's contributions (9.275% of the employee's salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 for those employees who joined the current plan on or after January 1, 2000.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

53

NOTE 11 — RETIREMENT SYSTEMS (CONTINUED)

*Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ER)
(continued)*

Funding Policy

Contribution requirements are established by law and are as follows:

Commonwealth	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,000 8.275% of gross salary over \$6,000
Hired on or after April 1, 1990	8.275% of gross salary

Puerto Rico System of Annuities and Pensions for Teachers ("TRS")

The TRS, which is administered by a board of trustees, is a single-employer defined benefit plan (as related to the Commonwealth's financial reporting entity), which was created under Act No. 218 approved on May 6, 1951. TRS provides retirement benefits to all teachers of the Department of Education of the Commonwealth, those holding positions in the Retirement Board, all pensioned teachers, all teachers transferred to an administrative position in the Department of Education, teachers who work in the Teachers' Association of Puerto Rico and those who practice in private institutions and other governmental entities accredited by the Department of Education.

The Plan provides retirement, death and disability benefits. Benefits vest after completion, of a given number of years of credited service based on age. Benefits are determined by the application of stipulated benefit ratios to the members' average compensation. Average compensation is computed based on the highest three years of compensation recognized by TRS. The annuity for which a plan member is eligible is limited to a minimum of \$300 per month and a maximum of 75% of the average compensation.

Funding Policy

A member was required to contribute to the plan 7% of total salary until January 1, 2000. Effective January 27, 2000 participant contributions were increased to 9%, as provided by Act No. 45 of 2000. The Commonwealth matches the member's contribution at a rate of 8.5% of total salary. Contribution rates are established by law, and are not actuarially determined.

Pension cost incurred by the Department and its component units for fiscal year ended June 30, 2008, amounted to \$4,287,374 and \$5,558,548, respectively.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

54

NOTE 12 - LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2008, consist of the following:

<u>Description</u>	<u>Balance</u>	<u>Due within one year</u>
Obligation under capital lease	\$ 2,172,081	\$ 1,368,277
Compensated absences	<u>17,227,705</u>	<u>6,891,082</u>
	<u>\$ 19,399,786</u>	<u>\$ 8,259,359</u>

NOTE 13 - COMMITMENTS

The Department entered into a capital lease agreement for the rental of building facilities where the central administrative headquarters are located. The lease agreement will expire in year 2010. The capitalized cost of the building amounted to \$11,499,615 and is included in the balance of capital assets as of June 30, 2008.

Future minimum rental payments under the capital lease agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 1,528,262
2010	<u>829,458</u>
Total minimum lease amounts	2,357,720
Amount representing interest	<u>(185,639)</u>
Present value of minimum capital lease payments	<u>\$ 2,172,081</u>

Interest expense for fiscal year ended June 30, 2008, amounted to approximately \$346,306.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

55

NOTE 13 - COMMITMENTS (CONTINUED)

Also, the Department has several non-cancelable operating leases, including those with the Public Buildings Authority of the Commonwealth of Puerto Rico, primarily for regional Department's facilities that expire over minimum terms of five years, and can be renewed for additional terms, as provided in each contract. Commitments under lease agreements provide for minimum annual rental payments as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 6,044,823
2010	3,472,211
2011	1,717,845
2012	1,271,866
2013	<u>666,000</u>
	<u>\$ 13,172,745</u>

Rent expense for the year ended June 30, 2008 related to operating leases amounted to approximately \$10,617,757. There were not contingent rentals or sublease rentals associated with leases in effect as of June 30, 2008.

Right to Employment Administration

The administration premises are under a non-cancelable operating lease which expires during fiscal 2012. Rent expense for operating premises and warehouse during the fiscal year ended June 30, 2008 amounted to \$1,605,442, approximately. Commitments under non-cancelable operating leases for the next five years are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 1,550,913
2010	1,591,912
2011	1,562,761
2012	<u>802,809</u>
	<u>\$ 5,508,395</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 13 – COMMITMENTS (CONTINUED)

Human Resources and Occupational Development Council

The Human Resources and Occupational Development Council has long-term operating lease agreements covering building and facilities, which generally have term of five (5) years and are automatically renewed, based on availability of funds. For fiscal year ended June 30, 2008 rent expenditures under operating leases amounted to \$967,093, approximately. Commitments under non-cancelable operating leases for the four (4) fiscal years subsequent to June 30, 2008, are as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2009	\$ 886,200
2010	886,200
2011	886,200
2012	<u>221,550</u>
	<u>\$ 2,880,150</u>

Vocational Rehabilitation Administration

The Administration leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Administration's opinion upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2008 amounted to approximately \$3,792,600. Future operating lease commitments are scheduled as follows:

2009	\$ 2,807,700
2010	2,755,000
2011	1,195,200
2012	148,800
2013	135,500
2014-2018	650,000
2018-2022	<u>324,800</u>
	<u>\$ 8,017,000</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

57

NOTE 13 – COMMITMENTS (CONTINUED)

Future Entrepreneurs and Workers Training Administration

The Administration is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most leased property is from Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico.

Rent paid during the fiscal year ended June 30, 2008, under these lease agreements amounted to approximately \$18,595. Information of the future minimum rental payments required under operating leases was not available.

NOTE 14— CONTINGENCIES

Litigation

The Department is defendant or co-defendant in various pending litigations. The Department's management, after consultation with in house legal counsel, has determined that at this stage of the proceedings they cannot offer an opinion as to the probable outcome of these cases. The Commonwealth of Puerto Rico Law #104 of June 30, 1955, as amended, known as Claims and Lawsuits Against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors, mayors, 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. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has discretion of requesting reimbursement of the funds expended for these purposes from public corporations, governmental institutions and municipalities of the defendants.

Federal Awards

The Department participates in federal programs received from the U.S. Department of Labor to promote the working class welfare and to finance the administration costs of the Puerto Rico Unemployment Insurance Program. Expenditures financed by federal grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Department may be required to reimburse the grantor agency. Accordingly, the Department's compliance with applicable grant requirements will be established at a future date. Nevertheless, the Department's management is of the opinion that the amount of expenditures, which may be disallowed by the granting agencies from such audits, will be immaterial.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

The following prior period adjustment have been made in the financial statements due to adjustments made as GASB 34 requirements, which are reported as an adjustments to beginning fund balances as follows:

Component Units	June 30, 2007, Fund Balance as Previously <u>Reported</u>	Prior period <u>adjustment</u>	June 30, 2007, Fund Balance as <u>Restated</u>
Human Resources and Occupational Development Council	\$ 35,397,500	\$ -	\$ 35,397,500
Add:			
Fund balance (deficit) as of June 30, 2007 of:			
Vocational Rehabilitation Administration	(39,000)	(26,828,131)	(26,867,131)
Right to Employment Administration	<u>(2,121,262)</u>	<u>(509,912)</u>	<u>(2,631,174)</u>
Fund balance restated as of June 30, 2007	<u>\$33,237,238</u>	<u>\$(27,338,043)</u>	<u>\$ 5,899,195</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

59

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
US Department of Labor		
Employment and Training Administration:		
Unemployment and Training Administration	17.225	\$22,906,672
Employment Service	17.207	8,245,738
School-to-work Opportunities	84.278	3,946
Passed-through Human Resources and Occupational Development Council		
WIA Dislocated Workers	17.260	505
Subtotal US Department of Labor		<u>31,156,861</u>
Occupational Safety and Health Administration		
Occupational Safety and Health	17.503	2,399,269
Compensation and Working Conditions	17.005	72,617
Subtotal Occupational Safety and Health Administration		<u>2,471,886</u>
Bureau of Labor Statistics		
Labor force Statistics	17.002	1,180,695
Office of the Assistance Secretary for Veterans Employment and Training		
Disable Veterans Outreach Program	17.801	204,559
Local Veterans' Employment Representative Program	17.804	214,997
Subtotal Office of the Assistant Secretary for Veterans		<u>419,556</u>
Equal Employment Opportunity Commission		
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	554,707
Total Expenditures of Federal Awards		<u><u>\$35,783,705</u></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

60

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grants activities of the Department of Labor and Human Resources (The Department) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit 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 basic financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- a) The Accompanying Schedule of Expenditures of Federal Awards is prepared from the Department's accounting records and is not intended to presented financial position or results of operations.
- b) The financial transactions are recorded by the Department in accordance with the terms and conditions of the grant, which may not be consistent with generally accepted accounting principles.
- c) Expenditures are recognized in the accounting period in which the liability is incurred, is measurable or when actually paid, whichever occurs first.

NOTE C - 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.

NOTE D - MAJOR FEDERAL PROGRAMS

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

61

NOTE E - RELATIONSHIP TO FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the Department's Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds. A reconciliation of the total expenditures from the accompanying Schedule of Expenditures Federal Awards to the Fund Financial Statements - Governmental Funds is as follow:

Reported in combined statement of revenues, expenditures
and changes in fund balances as:

Total expenditures	\$ 180,247,981
Work Regulation and Occupational Safety	(16,346,632)
Temporary Non-occupational Disability Insurance	(20,923,461)
Special Revenue Fund – State & Local Grants	(97,567,006)
Other Governmental Funds	(11,264,007)
Indirect Costs Allocation	<u>1,636,830</u>
Amount Reported in the Schedule of Expenditures of Federal Awards	<u>\$ 35,783,705</u>

**ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE
SINGLE AUDIT ACT**



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Secretary
Department of Labor and Human Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Department of Labor and Human Resources (the Department) as of and for the year ended June 30, 2008 and have issued our report thereon dated June 25, 2009, which was qualified at the fund financial level and adverse at the Government-Wide Financial Statements Level due to the Department's deficiencies noted in the internal control structure and the accounting records. Except as discussed in the preceding sentence, 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basic 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 Department'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as item 08-01 to 08-18.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 08-01, 08-02, 08-03, 08-04, 08-05, 08-06, 08-07, 08-10, 08-14, 08-15, 08-17 and 08-18 to be material weakness.

Compliance

As part of obtaining reasonable assurance about whether the Department'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 statements 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-01 to 08-18.

This report is intended solely for the information and use of the Department's management, state and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 25, 2009

Stamp No. 2312199 of the Puerto Rico Society
of Certified Public Accountants was affixed to the
record copy of this report



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

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

To the Honorable Secretary
Department of Labor and Human Resources
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Compliance

We have audited the compliance of the Department of Labor and Human Resources (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Department's major federal programs are identified in the summary of auditors' 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 Department's management. Our responsibility is to express an opinion on the Department'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 Department'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 Department's compliance with those requirements.

As described in items 08-22 to 08-23 in the accompanying schedule of findings and questioned costs the Department did not comply with requirements regarding eligibility, and property and equipment management that are applicable to all major federal programs. Compliance with such requirements is necessary, in our opinion, for the Department to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instance 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 08-24.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-19 and 08-21 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-19 and 08-21 to be material weaknesses.

This report is intended solely for the information and use of Department's management, state and federal awarding agencies and pass-through entities and is not intended to be an should not be used by anyone other than these specified parties.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 25, 2009

Stamp No. 2312200 of the Puerto Rico Society
of Certified Public Accountants was affixed to the
record copy of this report



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Qualified, except for adverse for Government-Wide Financial Statements

Internal control over financial reporting:
Material weakness identified? Yes X No _____
Significant Deficiencies identified not
Considered to be material weaknesses? Yes X No _____

Noncompliance material to financial
Statements noted? Yes X No _____

Federal awards

Internal Control over major programs:
Material weakness identified? Yes X No _____
Significant Deficiencies identified not
Considered to be material weaknesses? Yes X No _____

Type of auditor's report issued on compliance
for major programs: Qualified

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes X No _____

Identification of major programs:

<u>CFDA Number</u>	<u>Number of Federal Program or Cluster</u>
17.225	Unemployment and Training Administration
17.207	Employment Service
17.503	Occupational Safety and Health
17.002	Labor Force Statistics

Dollar threshold used to distinguish
Between Type A and Type B programs \$1,024,664

Auditee qualified as low-risk auditee Yes _____ No X

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

67

Section II – Financial Statements Findings

Finding Reference 08-01

Requirement Accounting System

Statement of Condition During the audit of the financial statements for the fiscal year ended on June 30, 2008, we noted that accounting records are primarily designed for the recording of revenues, expenditures, and other transactions on a cash basis of accounting. The accounting system does not provide for periodic recording of transactions under the accrual basis of accounting. Also, we noted the following deficiencies:

- a. No adequate and timely recording procedures were performed to general ledger accounts. The general ledgers provided for audit purposes, does not included the audit adjustments for the years 2003, 2004, 2005, 2006 and 2007. Instead, client prepared a working paper considering all audit adjustments performed during such periods in order to obtain a working trial balance for purpose of this audit.
- b. Converting cash-based financial statements to modified accrual-basis and to full accrual-basis financial statements requires a significant effort to the Department and adjusting entries had to be posted in order to account for unrecorded transactions, or to correct transactions accounted for in the wrong accounting period.
- c. Interfund transactions have not been properly recorded and reconciled in the accounting records during the year.
- d. During the evaluation and understanding of the accounting environment, we noted that the Department has not established a double entry accounting system to properly account for the results of the following proprietary funds:
 - Unemployment Insurance
 - Driver's Insurance

Currently, the accounting method used for these funds consisted in a manual system to record transactions which does not provide effective control over financial reporting.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-01 (Continued)

Criteria OMB Circular A-133, Subsection 310(a) requires auditees to prepare financial statements that reflect its financial position results of operations or changes in net assets for the fiscal year audited. Also, the accounting system established should be designed to reflect or provide complete and clear information related to the agency's financial results of operations. It should also provide accurate reports that act as a base for the preparation and support of the budget needs and for the control and proper monitoring of this budget.

Moreover, Law Number 230 of July 23, 1974, Puerto Rico Government Accounting Law, as amended, stipulates that the accounting system established should be designed to reflect or provide complete and clear information related to the agency's financial results of operations.

Cause of Condition Lack of adequate accounting procedures and analysis of the accounting transactions recorded during the year, as well a, proper training and supervision to the accounting department.

Effect of Condition Not preparing and submitting monthly reconciled financial statements to the management, does not permit to perform the following procedures:

- a. Detection of irregularities of instances of fraud on a timely basis.
- b. Prepare a timely comparison of actual expenditures to budget (monthly).
- c. Discussion of reports with corresponding personnel and receiving explanations for significant variations from budget.
- d. Comply with corresponding financial reporting required by the state and federal government.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

69

Section II – Financial Statements Findings

Finding Reference 08-01 (Continued)

Recommendation The Department should evaluate the policies and procedures used by the accounting department in order to evaluate what changes are needed to improve all the deficiencies mentioned in this report. Among the things to be considered to prepare a corrective action plan are the following:

- a. Increase supervision to all the accounting personnel assigned to each fund maintained by the Department.
- b. Revise systems and establish internal controls as needed, which will help assure the assets are properly safeguarded and that effective and efficient systems for processing of transactions are in operation.
- c. Implement in the Department of Unemployment and Drivers a computerized accounting system (double entry) and provide appropriate maintenance to it in order to obtain proper recording, summarization and interpretation of accounting transactions.
- d. Include into the responsibilities of the Finance Director the supervision of the three proprietary funds (Unemployment Insurance, Non occupational Disability and Driver's Insurance).
- e. Provide and/or increase trainings to the accounting personnel related with accounting functions and general accepted accounting principles to governmental entities.
- f. Maintain proper evidence of prior years audit adjustments in order to ensure proper reconciliation of beginning fund balances accounts.

Questioned costs None.

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

70

Section II – Financial Statements Findings

Finding Reference 08-02

Requirement Cash – Bank Accounts

Statement of Condition After performed audit procedures to the cash balances maintained by the Department, we noted the following deficiencies:

- a. Accounting records for the governmental funds, which bank accounts are held by the Commonwealth of Puerto Rico Treasury Department, were not reconciled with the transactions presented by PRIFAS report (GL-15) and provided by the Commonwealth of Puerto Rico Treasury Department ("Informe de Actividad y Status de Asignaciones por Agencia").
- b. The Department maintains the responsibility over the preparation of the bank reconciliations for the special revenue fund and the propriety funds bank accounts. After examined the bank reconciliation prepared by the accounting personnel of the Department, we noted that accounting records maintained unreconciled differences in the cash accounts when are compared with bank reconciliations.
- c. Once the bank reconciliations of the special revenue funds were examined we noted the following matters:
 - Special Disbursement Officer's reconciliation (367-1002-8) include significant reconciling items, including among other outstanding checks issued over one year that the Department do not have any evidence to support them. Also, the reconciliation balances were not conciliated with the accounting records.
 - Account 367-1701-2, an inactive account, does not have a detail for the deposit in transit amount of \$122,367.59; this account has many outstanding checks over one year.
 - Account 256-0005-9 with a reconciled balance of \$525,798.59 was not possible to identify it among the different general ledgers maintained by the Department for the federal funds.
 - Account 367-1290-8 was closed, but bank reconciliation maintained a list of reconciling items amounted to \$77,500.20. Auditors could not obtain a detail of this amount for verification.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

71

Section II - Financial Statements Findings

Finding Reference 08-02 (Continued)

- d. In the bank reconciliation for the accounts used by the proprietary funds, we observed the following irregularities:
- Account 467-1001-8 (Special Disbursement Officer - Unemployment Section) account includes significant reconciling items, including outstanding checks over one year.
 - The Contribution Section does not reconcile the Trust Fund account with general ledger and Treasury Department of the United States of America and do not maintain a list of reconciling items. As adjustment amounted to \$422,017.45 was proposed to conciliate accounting records with the Trust Fund account report.
 - The SINOT Section does not reconcile the account 200-3080-5 with general ledger and Treasury Department and do not maintain a list of reconciling items.
 - The Drivers Section do not reconcile the account 200-3090-4 (Investment Account) with general ledger and Treasury Department, and do not maintain a list of reconciling items.
 - The Agency does not maintain a reconciliation of the depository account of SINOT and Drivers, these accounts are under the custody of the Commonwealth of Puerto Rico Treasury Department.
- e. We observed that the bank statement for the month ended on June 30, 2008 was not stamped with the received date as stated in the Treasury Department's Regulation #9, "Normas Básicas para los Oficiales Pagadores Especiales Nombrados por el Secretario de Hacienda". The reconciliation must be prepared within three days after receipt of the bank statement or if more time is needed an extension of five (5) more days could be provided by the "Negociado de Intervenciones" without the received date we can't determine if the reconciliation was prepared on a timely basis. The following bank statements were not stamped the date of received:
- Account # 467-1001-8 - Unemployment
 - Account # 030-382068

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

73

Section II – Financial Statements Findings

Finding Reference 08-02 (Continued)

d. Compare the reconciliation to the prior period for items outstanding not cleared during current period.

We also recommend management to consider the consolidation of cash accounts wherever possible. With fewer accounts a tighter control over accounts can be achieved which will help to reduce the risk of misappropriated funds and resources needed to prepare reconciliations.

Questioned costs None.

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

Finding Reference 08-03

Requirement Investment

Statement of Condition The investments held by the Department pertain to the Temporary Occupational Disability Insurance has not been reconciled with the general ledger on a monthly basis. During our audit, we adjust this amount to the fair market value of the investment without considering the effect of the purchases and sales because of the inadequate accounting records. The Department only recognizes in books interest earned from investment during the year, but does not recognize the gains or losses from sales of securities during the year, if any.

Criteria The Generally Accepted Accounting Principles establishes that all investments held by governmental entities should be reported at fair value in the statement of financial position. The changes in fair value should be title as "net increase/(decrease) in fair value of investments" and reported in the statement of changes in fund balances, and the interest income should be reported as earned in the statement of changes in fund balances.

Cause of Condition This condition caused by lack of proper management supervision, training of personnel and the inconsistency in the application of accounting and financial reporting controls and procedures.

Effect of Condition The Department is not reporting its investments in accordance with generally accepted accounting principles and is also in noncompliance with required disclosure of use of funds.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

74

Section II - Financial Statements Findings

Finding Reference 08-03 (Continued)

Recommendation We recommend management to devote adequate resources to ensure that all investments maintained by third parties are reconciled monthly and that all transactions related to investments are recorded according to generally accepted accounting principles. We also recommend each reconciliation to be reviewed by personnel over the staff level of the preparer.

Questioned costs None.

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

Finding Reference 08-04

Requirement Accounts Receivable - Proprietary Funds

Statement of Condition The accounts receivable subsidiary ledger maintained by the Department is not accurate. Also, the accounts receivable were not reconciled to the general ledger balance during the year for the Unemployment Insurance Fund, Disability Insurance Fund and Drivers Insurance Fund.

We proposed some adjustments as per subsequent collection details provided by client, because the subsidiary ledger for those accounts receivables was not accurate.

Criteria As per the Government Auditing Standards, Section 5.13, the Department should provide complete and accurate accounting records consistent with their control objective to be able to prepare financial statements that reflect its financial position, results of operations or changes in net assets for the fiscal year audited.

Cause of Condition The Department did not maintain a subsidiary ledger due to the inadequacy of records.

Effect of Condition The Department can not make the proper collection effort and the Agency's Internal Accounting system does not properly present the financial results of the operations.

Recommendation Maintain a proper accounts receivable subsidiary ledger and conciliate with the amounts recorded in the general ledger for the different funds.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

75

Finding Reference	08-04 (Continued)
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.
Finding Reference	08-05
Requirement	Accounts Receivable – Others
Statement of Condition	The Department does not maintain a complete subsidiary of amounts Due from Federal Government and Other Accounts Receivable. During the year the amounts were not reconciled to general ledger to reflect the actual collectible amount.
Criteria	As per the Government Auditing Standards, Section 5.13, DOL should provide complete and accurate accounting records consistent with their control objective to be able to prepare financial statements that reflect its financial position, results of operations or changes in net assets for the fiscal year audited.
Cause of Condition	The Department is not using adequate procedures over accounts receivables, due to the inadequacy of records.
Effect of Condition	The Department's Internal Accounting system does not present properly the financial results of the operations of each fund.
Recommendation	An accounts receivable subsidiary should be established and the amounts recorded on general ledger should be adjusted and analyzed in a monthly basis.
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-06

Requirement Capital Assets

Statement of Condition In the area of capital assets we noted the following deficiencies:

- a. The records provided for auditors examination does not provide reasonable assurance that all additions for the year are identified and accounted for.
- b. During the year, the Department did not capitalize its property and equipment acquisitions, instead the agency charged to expense all the acquired property and equipment. Also, there is no reconciliation of acquisitions recorded on capital assets list.
- c. The costs of property and equipment maintained by the Department does not identify any possible retirements made during a year. Also, it included acquisitions dates but serial numbers are not used consistently based on the acquisition dates.
- d. A depreciation schedule is not maintained for the capital assets held by the Department.

Criteria GASB 34 requires auditee to prepare financial statements that reflect its capital assets in the statement of net assets.

Cause of Condition The Department does not have an accounting system that provides for periodic reporting of capital assets under the accrual basis.

Effect of Condition Not observing the dispositions related to the control and protection of property increase the risk of loss, inadequate use and other irregularities with the property and impairs the timely detection of these irregularities. Not being able to determine the cost of property and equipment does not permit Finance Department to prepare complete accounting records, ledgers and information presented in the financial statements. Moreover, not properly disposing of damaged or obsolete property can cause problems of space limitation and overstatement of property cost accounting records.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

77

Section II – Financial Statements Findings

Finding Reference 08-06 (Continued)

Recommendation The Department should establish or improve existing procedures which permit keep appropriate accounting records over the capital assets and the Finance Department could be able to report appropriately the capital assets in the financial statements. Also, maintain adequate controls will resulted in appropriate and actualized accounting records that will help verify the existence and completeness of the capital assets owned by the Agency.

Furthermore, perpetual records should be established 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 an annual basis. These physical inventories should be compared with the perpetual records and all differences noted must be immediately investigated and resolved.

Questioned costs None.

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

Finding Reference 08-07

Requirement Accounts payable and benefits payable

Statement of Condition During the audit of accounts payable area, we noted that subsidiaries balances included several invoices from prior years that were already paid and had not been eliminated from the accounts payable subsidiary. Also, we noted that accounts payable subsidiaries were not reconciled with general ledger accounts.

The Department has established policies to determine the balance of benefits payable at the end of the year for each of the Proprietary funds (Unemployment Insurance, Driver's Insurance, Non-occupational Disability). However, the accounts balances are not reconciled on a monthly basis and the existing internal controls do not provide assurance that all the obligations are summarized and recorded on books.

Also, the balance at end of year of the benefits payable accounts for each Proprietary Fund, were adjusted as a part of the audit procedures.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-07 (Continued)

Criteria Circular A-133 Subsection 310 (a) require that the auditee shall maintain complete and accurate accounting records to be able to prepare financial statements that reflect its financial position, results of operations or changes in net assets for the fiscal year audited.

Cause of Condition The Finance Department is not being using properly the subsidiary of accounts payable provided by the computer system (MUNIX). We observed that the procedures performed by accounts payable personnel were limited to process invoices for payments only and are not following appropriate reporting practices such maintain an adequate and complete subsidiary each month.

Also, internal controls over the benefits payable are not adequate to summarized and recording the related obligations

Effect of Condition We were unable to determine proper recording of liabilities since there were no reliable accounts payable subsidiary ledgers. Therefore financial statements could not be prepared properly on the accrual basis of accounting.

In addition, the internal control structure established on the benefits payable do not provide assurance that all the related obligations are properly managed and recorded on books.

Recommendation The Finance Department should maintain a ledger of all open invoices and all issued payments vouchers by date and fund. This ledger must be reconciled on a monthly basis to identify all accounts payable that must be kept in a subsidiary. It must also be analyzed and reconciled with the general ledger on a monthly basis. Differences and reconciling items should be investigated and adjusted on a timely basis.

Also, internal control structure over benefits payable should be reviewed in order to provide assurance of the appropriate reconciliation and recording of these obligations.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-07 (Continued)

Questioned costs None.

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

Finding Reference 08-08

Requirement Payroll

Statement of Condition We noted discrepancies on the amounts of salaries reported when compared books and the report prepared by Puerto Rico Treasury Department for the purpose of prepare the FICA tax returns.

Criteria The Institution should maintain adequate controls and procedures for payroll transactions in order to maximize safeguarding of assets and control over major cost of the Institution.

Cause of Condition Lack of adequate control of the accounting records and lack of reconciliation between the different sources of information.

Effect of Condition The organization may record the incorrect amount for salaries expense or may not report to the IRS the total amount of salaries paid.

Recommendation Evaluate internal control system and procedures maintained by the institution in order to attained accurate records and safeguards of payroll transactions.

Questioned costs None.

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

80

Section II – Financial Statements Findings

Finding Reference	08-09
Requirement	Payroll
Statement of Condition	The Department does not prepare and filed the Unemployment Insurance and Disability Insurance tax returns.
Criteria	The Department is required to prepare and filed an Unemployment Insurance and Disability Insurance tax return to the Contribution Section to report the salaries paid by the Department.
Cause of Condition	Lack of sufficient personnel in the accounting and administrative departments.
Effect of Condition	The organization may incur in penalties for late filing to the required section.
Recommendation	Evaluate internal control procedures and the different duties assigned to each different personnel in order to comply with the different requirements of the payroll transactions.
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.
Finding Reference	08-10
Requirement	Payroll
Statement of Condition	The Department's Finance Department does not record the transactions related to payroll and bonus accruals as required by generally accepted accounting principles.
Criteria	As per the Government Auditing Standards issued by the Comptroller General of the United States, Section 5.13, DOL should provide complete and accurate accounting records consistent with their control objectives to be able to prepare financial statements that reflect its financial position, results of operations or changes in fund balances for the fiscal year audited.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II - Financial Statements Findings

Finding Reference 08-10 (Continued)

Cause of Condition The Department's Human Resources and Finance Department have not established the proper accounting system to be able to generate these types of reports and journal entries.

Effect of Condition We were unable to determine proper recording of payroll related liabilities. Therefore, a Statement of Net Assets and a Statement of Activities could not be prepared on an accrual basis of accounting.

Recommendation The Department's Human Resources Department should establish a system that permits the accumulation of data related to the payroll to be able to generate complete and updated reports on a timely basis. In addition, the Finance Department should implement the analysis necessary to be able to prepare a trial balance on an accrual basis of accounting. Proper communication should exist between both Departments to make accrual adjustments accurately and on a timely basis.

Questioned costs None.

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Finding Reference 08-11

Requirement Payroll

Statement of Condition We performed a test over a sample of employee files. As a result of our test, we noted that certain documents were not included and/or actualized on the files. The following is a summary of the documents:

	State Funds number of times where deficiency was found	Federal Funds number or times where deficiency was found
No Duties Certification	1	15
No Equal Opportunity Employment by gender Policy	8	27
No Order 99-06	7	28
No Behavior and Procedures Rules	8	28
No Drug Free Place Policy Awareness	-	9
No Sexual Harassment Policy Awareness	-	13
No Drug Free Agency Policy	-	2
No Information and Computer Management Policy	2	6
No Certification of No Debt with the PR Government	7	23
No Governmental Ethic Law	-	6
No Negative Certificate of Criminal Record	-	1
No Retention Exemption Certificate	-	8
No Birth Certificate	-	2
No Medical Exam	-	3
No Form I-9	2	6
No employee photo	1	-
No OAP-1	-	2
No OCAP-29	-	1
No Academic Credentials	-	3
No Eligibility Certification	-	1
No Personnel Input Form	1	8
No Registry of People Convicted of Corruption	-	7
No Employment Dismissal Memorandum	1	6
No Exclusive Representative Certification	8	34
No Equal Opportunity Employment by Age Policy	9	27
Discrepancy between salaries paid vs. salary on employee file	-	2
Salary paid from a different fund	-	2

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

83

Section II – Financial Statements Findings

Finding Reference 08-11 (Continued)

Criteria	Proper administrative procedures and federal and local labor laws and regulations require maintaining employee's file with all required documentation. Furthermore, OMB Circular A-87 (Cost Principles) establishes the general requirements for the allowability of costs charged to a federal program. The principles required the maintenance of records in sufficient detail to document the history of each disbursement and support its allowability and accounting distribution. In addition, employee hours paid should be supported by employee time cards or time sheets approved by the supervising official.
Cause of Condition	The Department's Human Resources Section does not review the employees' file on a frequent and/or timely basis to ensure that required documents are being obtained.
Effect of Condition	The Department did not comply with federal and local labor laws and regulations.
Recommendation	The Department's Human Resources Section should review and up date all employees' files. A checklist should be maintained with a list of all required and necessary information to be included in the files. Any missing documents should be requested from the employee.
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

84

Section II – Financial Statements Findings

Finding Reference	08-12
Requirement	Income and Collection Test
Statement of Condition	When performing the Unemployment Insurance and Disability Insurance Sections income and collection test, we examined 20 income files and noted that there was not proper supervision over the work performed by the collector, because no reviewer signature were noted on these files.
Criteria	Proper administrative procedures require the maintenance of records in sufficient detail to document the history of each receipt and support its existence and accounting distribution.
Cause	No proper supervision over the work performed by the collector.
Effect	Errors, misstatements or fraud on the financial statements could not be detected.
Recommendation	Supervising policies should be reviewed by the director of the department in order to verify proper verification procedures. This will help to ensure that all collection reports (deposits slips, etc.) are verified, completed and properly safeguarded to prevent loss of money and important information.
Questioned cost	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

85

Section II – Financial Statements Findings

Finding Reference	08-13
Requirement	Filing System
Statement of Condition	<p>We noted a deficiency in the filing system maintained by the Department. In various instances information could not be provided to auditors due to information was loss or misfiled. Examples of this situation were the following:</p> <ul style="list-style-type: none">a. The “Negociado de Seguridad de Empleo” did not provide for our examination four unemployment participants records required for our beneficiary test.b. The Contribution Section did not provide for our examination one employer’s tax return during our income and collection test.
Criteria	<p>One important component of good control procedures is the safeguards of the files, records and other sensitive documents.</p>
Cause of Condition	<p>Lack of proper control and organization over the filing system.</p>
Effect of Condition	<p>Institution’s documents has not been properly safeguarded and consequently not available for audit purposes.</p>
Recommendation	<p>We suggest that file cabinets should be located in a safe place and that only the authorized person should have access to it. In addition, management should evaluate the filing system in the different departments of the Institution.</p>
Questioned cost	<p>None.</p>
Management Response	<p>The Department’s management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.</p>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

86

Section II – Financial Statements Findings

Finding Reference	08-14
Requirement	Financial Statements
Statement of Condition	At the time of our examination of the financial statements, we noted that financial information is not reviewed, analyzed and reconciled on a monthly basis. It appears that this is the result of a lack of formal procedures or timetables to provide the necessary guidelines to responsible employees.
Criteria	Management decisions are frequently based on internally reported financial information generated throughout the year. Management also has responsibility for reporting interim financial information to outside third parties. Ensuring that reliable information is included in those reports should be a consideration in management's specific internal accounting control objectives.
Cause of Condition	This situation occurred when the accounting department is not organized and well supervised; also the accounting is not centralized as previously mentioned.
Effect of Condition	Directors, management and third parties do not have the reliable financial information of the institution available to make administrative, investment and other decisions.
Recommendation	We recommend that a monthly checklist be prepared to ensure that all procedures and timetables have been met on a timely basis. This will increase the effectiveness of these reports, allowing management to actually use the data in their decision making.
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-15

Requirement Internal Control Over Financial Reporting

Statement of Condition The following matters regarding internal control over financial reporting were noted during our examination:

1. The Department has not developed a uniform accounting policies and procedures manual applicable to all areas, which would enhance the financial reporting process by establishing uniform procedures for all funds. Therefore, each employee of the Department is assigned to work in a specific area or task but each of them work according to their own experience without following uniform procedures.
2. Certain instances of improper segregation of duties were noted. For example, the same person in the Contributions Division (Unemployment Insurance and Non-occupational Disability Insurance) is responsible for receiving contributions, preparing the bank deposit, and posting cash receipts and insurance taxes collections in the accounting system. In addition, the bank deposits and remittance reports submitted to the Commonwealth of Puerto Rico Treasury Department and Finance Department were performed without independent reviews and authorizations to determine that the reports were complete, accurate and properly recorded in books for bank reconciliation purposes. Also, the Disbursements Officer of the Benefit Payments Section of the Drivers' Insurance Fund and Finance Department prepares the disbursement ledger and signs checks through the use of computer system.
3. The Department does not record properly all returned checks as a receivable balance. Instead, these are automatically adjusted to revenue accounts.
4. During our evaluation of the Internal Audit Department, we noted that the Department does not have a formal policies and procedures manual that will enhance the uniformity of internal audit procedures among department personnel and increase the efficiency and effectiveness of the internal audit department as a management monitoring tool.
5. The Finance Department does not keep appropriate records regarding the composition of encumbrance accounts recorded in books on the different funds maintained by the Agency.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

88

Section II – Financial Statements Findings

Finding Reference 08-15 (Continued)

Criteria State and Federal regulations require that effective control over financial reporting must be maintained for all grants and sub-grants cash, real and personal property, and other assets. Internal control over financial reporting encompasses control procedures over accounting applications and financial reporting systems, methods and records established to identify, assemble, analyze, classify records and report transactions, events and conditions and maintain accountability for related assets and liabilities. One of the elements of an effective system of internal controls is proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate and conceal an error or irregularity. Proper segregation of duties provides for a system of checks and balances such that the functions performed by one employee are subject to review through the performance of interrelated functions of another employee.

A properly implemented internal audit department has the capacity of serving management as a monitoring tool, helping the Department to comply with laws and regulations and helping in the development of a proper structure of internal control.

The Department also does not have a formal policies and procedures manual for its Information Technology Department, which should establish procedures for proper information sharing in the Department.

Cause of Condition Management lacks formal manuals of policies and procedures for the areas discussed in this finding.

Effect of Condition The Department does not have the ability to produce and prepare financial statements on a timely basis, which would accurately reflect the financial position and results of operations for monitoring purposes. Also, no effective internal audit procedures are being performed.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-15 (Continued)

Recommendation Management should develop a proper accounting policies and procedures manual. This also applies to the internal audit function, as well as to the Information Technology Department.

Regarding internal control over financial reporting, management should establish a proper segregation of duties between custody of assets and the accountability and recording processes. Such conflicting responsibilities should be separated to the extent possible, considering the limited amount personnel in the Department. The goal should be to ensure that no individual has both access to assets and records or monitoring procedures over such assets.

Segregation of duties will provide a stronger system of internal control whereby the functions of each employee are subject to the review of another. Management should monitor each of these as the staff is expanded and as responsibilities are reassigned.

Questioned costs None.

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

Finding Reference 08-16

Requirement Test of Transactions – “Ley 52 & 82”

Statement of Condition We select a sample of 17 beneficiaries' files of Ley 52 and 82 to review that each participant complies with all the requirements and documents to justify the use of the salary incentive, as established in the contract. As a result of our test, we noted that certain documents were not included on the files. The following is a summary of the missing documents:

	Number of times Where deficiency was found
Advance Evidence Form	3
Proposal	5
Contract	3
Payroll cancelled checks	3
Voucher without the “preintervenido” stamp	1

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section II – Financial Statements Findings

Finding Reference 08-16 (Continued)

Criteria As per the tenth clause of the contract the entity is obligated to submit evidence for the use of the salary incentive.

Cause of Condition Lack of proper monitoring by the Work Incentive Department.

Effect Possible illegal appropriation or fraud may occur and could not be detected.

Recommendation Proper monitoring by the Work incentive Department to each participant to assure the compliance with the contract.

Question Costs None.

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

Finding Reference 08-17

Requirement Test of transactions - Disbursements

Statement of Condition We selected a sample of 50 disbursements realized by the Special Disbursement Officer and the Treasury Department to review that the department complies with the requirements and documents established by law for the costs and activities allowable. As a result of our test, we noted that certain procedures were not follow. The following is a summary of these procedures:

	Number of times where deficiency was found
Vouchers without the paid stamp	9
Vouchers without the "preintervenido" stamp	1
Vouchers without one signature	1

Criteria Costs must be reasonable and consistent in conformity with the laws and regulations. They also must be properly documented.

Cause of Condition Lack of proper monitoring by the Finance Department.

Effect Possible illegal appropriation or fraud may occur and could not be detected

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

91

Section II – Financial Statements Findings (Continued)

Finding Reference	08-17 (Continued)
Recommendation	Proper monitoring by the Finance Department personnel to assure that all administrative procedures and documents require to support each disbursement are followed as established by law.
Question Cost	None
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.
Finding Reference	08-18
Requirement	Accrued Vacation and Sick Leave
Statement of Condition	We select a sample of 25 employees from the accrued vacation and sick leave report prepared by the Agency as per Treasury Department requirements established on "Carta Circular 1300-40-07". We asked for the employee's accumulations card and compared the total accumulation per employee with the amount established in the final report submitted to the Treasury Department, we found differences in 23 of the records examined. Those amount were corroborated with the Payroll Department and recomputed as per accumulations policies established. We made a projection and proposed the corresponding adjustment.
Criteria	The preparation of this report constitutes the source of information for the presentation of the Accrued Vacation and Sick Leave liability amount in the financial statement of the Agency and Treasury Department. This liability represents 58.7% of total liabilities of the Agency's Governmental Activities.
Cause of Condition	Lack of computerized system in the Human Resource area, the cards maintained for each employee are managed manually by the personnel of the area.
Effect of Condition	The report does not present properly the amount to be presented in the financial statement.
Recommendation	The Agency should establish a computerized system that allows the accumulation of data related to the each employee attendance to be able to generate complete and updated report on a timely basis.
Question Costs	None.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

92

Section II - Financial Statements Findings (Continued)

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

93

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-19
Requirement	All Federal Programs Reportable Condition
Statement of Condition	As discussed in the findings 08-01, 08-02, 08-05, 08-06 and 08-07, the Department did not maintain adequate accounting records.
Finding Reference	08-20
Requirement	All Federal Programs Reportable Condition
Statement of Condition	As discussed in the findings 08-14 and 08-15, the Department had several deficiencies regarding internal control structure over financial reporting. Due to such failure the Department does not have the ability to produce federal reports in a timely basis and federal programs were not properly monitored as to compliance with applicable laws and regulations.
Finding Reference	08-21
Requirement	All Federal Programs Reportable Condition
Statement of Condition	No proper accounting and monitoring procedures have been developed over property and equipment transactions. There is no formal subsidiary of property and equipment that shows acquisitions and dispositions segregated by federal programs.
Criteria	Federal and State regulations require that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconcile to the equipment records. Also, an appropriate control system shall be used to safeguard property and equipment, and such controls shall be adequately maintained and updated.
Effect of Condition	Equipment cost can not be adequately charged to federal programs and there is no reliable support for equipment amounts shown on the financial statements.
Cause of Condition	No inventory or reconciliation of property ledger procedures has been established as required by federal and state regulations.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-21 (Continued)

Recommendation The Department should prepare a detail of property and equipment as required by State Regulation and Common Rule, Section 32. This detail must be reconciled to accounting records. Also periodic reconciliation between physical inventory and subsidiaries should be performed to ascertain that all property is accounted for and maintained in good conditions.

Questioned cost None.

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

Finding Reference 08-22

Requirement Employment Services CFDA - 17-207

Statement of Condition The following report was submitted to the federal agency after due date:

Program	Grant Period	Quarter	Report	Due Date	Submitted
Employment services	07/01/08-09-30/10	07/01/07 - 09/30/07	Financial Status Report	11/15/07	11/28/07

Criteria Section 41 of the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments states that reports required on a quarterly basis will be due 45 days after the reporting period.

Cause of Condition Inadequate procedures to follow up and ensure that reports are submitted according to reporting requirements.

Effect of Condition The Department could be exposed to administrative sanctions by the federal awarding agencies, including the withholding of funds for lately submission of the reports.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

95

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-22 (Continued)

Recommendation Management should properly monitor and follow up the preparation of the reports to comply with due dates.

Questioned costs None.

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

Finding Reference 08-23

Requirement Unemployment and Training Insurance 17-225

Statement of Condition In order to evaluate the eligibility of participants of the unemployment insurance benefits, we selected a sample of fifty (50) participant records of which forty six were provided for examination. As a result of our test, we noted that certain documents were not included and or actualized on the files. The following is a summary of the documents:

- 20 eligibility questionnaires
- 3 weekly benefit payment report
- 24 unemployment benefit application

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 08-23 (Continued)

Criteria	<p>In order for an individual to be eligible to receive funds from the Unemployment Insurance Program they must comply with the following conditions:</p> <ul style="list-style-type: none">a. Received salaries of at least \$280.00 during basic period as established in DOL table of benefits and those salaries must be paid during two quarters in the basic period. Also, at least \$75.00 must be earned in one of the quarters.b. Must be able and available for work.c. Has not received more than 26 weeks of unemployment benefits.d. Claimant must be registered with the Employment Service Office.e. Ascertain that claimant is not excluded for the receipt of unemployment benefits due to the nature of services rendered.f. Must participate on the available reemployment services.g. For federal employees, ascertain that benefit amounts were paid in accordance with PRDOL law.h. For ex-service member ascertain that claimant's eligibility is determined in accordance with the unemployment law in which the claimant files a first claim after separation from active military service.
Cause of Condition	<p>Inadequate monitoring procedures to follow-up and ensure compliance with eligibility requirements.</p>
Effect of Condition	<p>Management could be subject to administrative sanctions by the Federal Agency.</p>
Recommendation	<p>We recommend that participants files should be reviewed on a regularly basis in order to monitor procedures and ascertain that all required documentation is included in the participant files.</p>
Questioned costs	<p>None.</p>
Management Response	<p>The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2008

97

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	08-24
Requirement	All Federal Program
Statement of Condition	The Department has not submitted the Data Collection Form and the Reporting Package, for the year ended June 20, 2008. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30-day after the receipt of the auditor's reports or nine month after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
Criteria	<p>The Single Audit Act requires that all auditees must submit to the Federal Clearinghouse designated by the OMB the Data Collection Form and one copy of the reporting package to: (a) the federal clearinghouse to retain as a file copy (b) each federal awarding agency, when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the federal awarding agency provided directly or when the summary of prior audit findings reported the status of any audit findings relating to federal awards that the federal awarding agency provided directly; (c) the cognizant agency for audit if not otherwise included as an agency with audit finding in (b) above.</p> <p>In addition, the auditees are required to keep one copy of the data collection form and the reporting package on file for three-year from the date of submission to the federal clearinghouse designated by the OMB.</p>
Effect	The Department is not complying with the reporting requirements set forth by federal regulations, which could affect the future of its federal grants.
Cause	Management has not been able to finish procedures to issue the basic financial statements for the fiscal year ended June 30, 2008 in order to complete its reporting requirements for such year, before due date.
Recommendation	We recommend the Department to contract an audit firm to be in-charge of the single audit process before the year end and to close the fiscal year.
Questioned costs	None.
Management Response	The Department's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES**

**SUMMARY OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2008**

98

Since the audits for the years ended June 30, 2004, 2005, 2006 and 2007 were done almost simultaneously; all the findings prior to the fiscal year ended June 30, 2008 are repeated and continue to be findings, except to prior year audit findings 04-14, 05-08, 05-20 and 05-22, which were corrected or no longer still valid. As such, these are included in the Schedule of Findings and Questioned Costs presented as part of this Single Audit Package.