

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

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT AUDITORS' REPORT
(WITH THE ADDITIONAL REPORTS REQUIRED UNDER
OMB CIRCULAR A-133)**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Honorable Secretary and Management of the
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, the business-type activities, the discretely presented component unit, 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, 2009, 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 following agencies which are organizational components of the Department:

- Vocational Rehabilitation Administration, which represents 5%, 11% and 25%, respectively, of the assets, net assets, and revenues of the governmental activities;
- Human Resources and Occupational Development Council, which represents 77%, 77% and 61%, respectively, of the assets, net assets, and revenues of the governmental activities.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the funds indicated above, is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department of Labor and Human Resources of the Commonwealth of Puerto Rico, are intended to present the financial position, and changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the

Commonwealth of Puerto Rico that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico, as of June 30, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements do not include financial data for the Department's organizational component Future Entrepreneurs and Workers Training Administration (FEWTA) because its financial statements were prepared using the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Department does not maintain adequate accounting records and reconciliation procedures for recording its financial transactions of the General Fund, Work Opportunity Incentive Fund and other Governmental Funds in the following areas: cash, accounts payable, and fund balance reserved for encumbrances and cash transactions of the special disbursement officer's accounts of the Unemployment Insurance Fund. Also, the Department does not maintain complete and accurate accounting records to adequately account for its capital assets of the governmental activities nor for recording all assets acquired and disposed of.

Because of inadequacies in the Department's accounting records, we were unable to form an opinion regarding the aggregate amounts of \$368,545, \$21,074,067, \$30,203,500, \$155,490,198 and \$4,275,291 as of June 30, 2009, recorded in the accompanying Balance Sheet - Governmental Funds in the General Fund, Work Opportunity Incentive Fund and other Governmental Funds as cash in commercial banks, cash in governmental bank, cash held by Puerto Rico Secretary of Treasury, accounts payable and fund balances reserved for encumbrances, respectively. Also, we were unable to form an opinion regarding the net amount of \$3,366,487 recorded as capital assets in the accompanying Statement of Net Assets.

Also, as discussed in Note 3 to the accompanying basic financial statements, because of inadequacies in the Department's accounting records, we were unable to form an opinion regarding the amount of \$3,167,148, as of June 30, 2009, of cash overdraft in governmental bank included in insurance benefits payable of the Unemployment Insurance Fund in the accompanying Statement of Net Assets-Enterprise Funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the cash in commercial banks, cash in governmental bank, cash held by Puerto Rico Secretary of Treasury, accounts payable and fund balances reserved for encumbrances in the General Fund, Work Opportunity Incentive Fund, and other Governmental Funds, and the capital assets, been susceptible to satisfactory audit tests, and the omission of the financial data of the FEWTA, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining funds information of the Department, as of June 30, 2009, 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.

In addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Unemployment Insurance Fund cash overdraft in governmental bank been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the business-type activities of the Department, as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of the Department as of June 30, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2012, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule- General Fund on pages 4 through 15 and 67 through 68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 69 is presented for purposes of additional analysis as required by the 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. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other procedures used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.



San Juan, Puerto Rico
April 20, 2012

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to the original.

COMMONWEALTH OF PUERTO RICO

DEPARTMENT OF LABOR AND HUMAN RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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The Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the "Department") provides this Management Discussion and Analysis (MD&A) to the readers of the Department's basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the Department as of and for the year ended June 30, 2009. The MD&A is designed to: (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the Department's enterprise funds' financial activities, and (c) highlight individual fund matters. Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the Department's basic financial statements, including the notes thereto.

Financial Highlights

- The total assets of the Department, on a government-wide basis, exceeded its total liabilities by **\$430,910,834** at the close of fiscal year 2009.
- Total assets of the Department amounted to **\$928,310,675**, which represents an increase of **\$32,580,802 (4%)** compared with fiscal year 2008. Total liabilities of the Department amounted to **\$497,399,841**, which represents an increase of **\$145,183,604 (41%)**, as compared with fiscal year 2008.
- The net assets of Department decreased by **\$112,602,802 (21%)** as a result of this year's operations.
- An early retirement program was approved and implemented at a cost of **\$24,831,039**. Change in net assets, excluding this item was **\$87,771,763**.

Overview of the Basic Financial Statements

This Management Discussion and Analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Department. The Department's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These components are described below.

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 financial statements.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide users of the basic financial statements with a broad overview of the Department's finances in a manner similar to the private sector business. These statements present short and long-term information about the Department's financial position, which assists in assessing the Department's economic condition at the end of the year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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Overview of the Basic Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The statement of net assets (deficit) provides information on the Department's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the Department's net assets (deficit) 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.

The statement of activities presents information on how the Department's net assets (deficit) changed during the reporting period. Changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, the current year's revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The Department's governmental activities include general and administrative, employment regulations, employment services, improvements and maintenance to facilities, occupational safety and health, rehabilitation services, statistics and monitoring, unemployment services, and work incentive. The business-type activities of the Department include unemployment insurance, disability insurance and drivers' insurance.

The government-wide financial statements include not only the Department itself, but also a legally separate agency for which the Department is financially accountable. Financial information for this component unit, Right to Employment Administration, is reported separately from the financial information presented for the Department itself. The other agencies composing the Department, function for all practical purposes as an organizational component of the Department, and therefore have been included as a governmental funds of the Department.

The Government-Wide Financial Statements of the Department can be found on **pages 16 to 17** of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state departments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Department's funds are divided in three categories: governmental funds, enterprise funds and agency funds.

Governmental funds: 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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Overview of the Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

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 (Deficit) and the Statement of Governmental Fund of Revenues, Expenditures, and Changes in Fund Balances (Deficit), provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains individual governmental funds. Information presented in the Governmental Fund Balance Sheet and the Governmental Fund of Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) accounts for the financial transaction of the General Fund, Work Opportunity Incentive Fund, the Human Resources and Occupational Development Council, and the Vocational Rehabilitation Administration; which are considered to be major funds of the Department. The governmental funds financial statements of the Department provide separate information on the governmental activities of the Department's organizational component agencies.

The Department's basic governmental fund financial statements can be found on **pages 18 to 21** of this report.

Enterprise funds: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements and to provide the same type of information as the government-wide financial statements, only in more detail. The Department's uses enterprise funds to account for the Unemployment Insurance, the Temporary Non-occupational Disability Insurance and the Drivers' Social Security Insurance Programs.

The Department's enterprise funds accounts for the Unemployment Insurance, the Disability Insurance and the Drivers' Insurance Funds, which are considered to be major funds of the Department.

The Department's basic enterprise funds financial statements can be found on **pages 22 to 25** of this report.

Agency fund: The agency fund is used to account for funds held in a purely custodial capacity. Since the agency fund should not be reported in the statement of changes in agency net assets, such statement is not presented as a part of the basic financial statements. The Department's basic agency fund financial statement can be found on **page 26** of this report.

Component unit financial statements: These are operations, for which the Department has financial accountability, or the nature or significance of their relationship with the Department is such, that their exclusion would cause the Department's basic financial statement to be misleading or incomplete. The government-wide financial statements present information for the component unit in a single column on the Statement of Net Assets (Deficit).

Notes to the Basic Financial Statements: The notes provide information that is essential to a full understanding of the data provided about the Department, which is included in the government-wide and fund financial statements. The notes to the basic financial statements can be found on **pages 27 through 66** of this report.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Overview of the Basic Financial Statements (Continued)

Other Information: The required supplementary information is included immediately following the notes to the basic financial statements. This section includes the Budgetary Comparison Schedule – General Fund with the related Notes to Budgetary Comparison Schedule – General Fund and can be found on **pages 67 and 68** of this report. A budgetary comparison schedule has been provided for the general fund to demonstrate its compliance with annual appropriated budget.

Government-wide Financial Analysis

Net Assets (Deficit)

The net assets (deficit) serve over time as a useful indicator of the Department's financial position at the end of the fiscal year. The Department's net assets amounted to **\$430,910,834** at June 30, 2009. The Department's net assets (deficit) include investment in capital assets for **\$3,366,487**, restricted net assets of **\$431,949,391** and unrestricted net deficit of **\$4,405,044**. The following table presents the Condensed Statements of Net Assets (Deficit) of the Department as of June 30, 2009 and 2008:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 273,804,045	\$ 138,628,177	\$ 622,030,260	\$ 719,143,994	\$ 895,834,305	\$ 857,772,171
Investments	-	-	29,109,883	34,368,608	29,109,883	34,368,608
Capital assets, net	3,350,239	3,551,182	16,248	37,912	3,366,487	3,589,094
Total assets	\$ 277,154,284	\$ 142,179,359	\$ 651,156,391	\$ 753,550,514	\$ 928,310,675	\$ 895,729,873
Current liabilities	\$ 317,579,055	\$ 178,397,635	\$ 132,152,823	\$ 135,592,288	\$ 449,731,878	\$ 313,989,923
Noncurrent liabilities	44,124,517	36,557,088	3,543,446	1,669,226	47,667,963	38,226,314
Total liabilities	361,703,572	214,954,723	135,696,269	137,261,514	497,399,841	352,216,237
Net assets (Deficit):						
Invested in capital assets	3,350,239	3,551,182	16,248	37,912	3,366,487	3,589,094
Restricted for benefits payments	-	-	431,949,391	518,157,765	431,949,391	518,157,765
Unrestricted	(87,899,527)	(76,326,546)	83,494,483	98,093,323	(4,405,044)	21,766,777
Total net assets (deficit)	\$ (84,549,288)	\$ (72,775,364)	\$ 515,460,122	\$ 616,289,000	\$ 430,910,834	\$ 543,513,636

A portion of the Department's net assets (deficit) reflects its investment in capital assets such as fixtures, furniture and equipment and vehicles. The Department uses these capital assets to provide services to its eligible citizens; consequentially, these assets are not available for future spending.

An additional portion of the Department's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. An otherwise positive remaining balance would be used to meet the Department's ongoing obligations for eligible citizens' claims and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the Department is able to report positive balances in two categories of net assets, both for the Department as a whole and in its separate business-type activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Government-wide Financial Analysis (Continued)

Net Assets (Deficit) (Continued)

The net assets (deficit) of the governmental activities and business-type activities were restated as of June 30, 2008 by \$(66,817,151) and \$97,919,074, respectively, mainly due to the cash and payables balances restatements and proper presentation of the Department's reporting entity and its component unit.

Changes in Net Assets (Deficit)

The Department's net assets decreased by \$112,602,802 compared to 2008 net assets as restated. The net change in assets (deficit) is composed of \$11,773,924 from governmental activities and \$100,828,878 from business-type activities. Total revenues increased by \$260,041,827 (43%) and expenses increased by \$258,902,241 (38%) in comparison with fiscal year 2008. The net change in net assets decreased by \$23,610,092 in relation to the 2008 net change. The following table presents the Condensed Statements of Activities that reflect how the Department's net assets (deficit) changed during the fiscal years ended June 30, 2009 and 2008.

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 386,671,555	\$ 317,502,667	\$ 240,775,584	\$ 29,837,707	\$ 627,447,139	\$ 347,340,374
Charges for services	-	-	241,911,697	255,547,380	241,911,697	255,547,380
Investment earnings (losses)	184,726	539,596	(4,090,260)	1,984,135	(3,905,534)	2,523,701
Total revenues	386,856,281	318,042,263	478,597,001	287,369,222	865,453,282	605,411,455
Expenses:						
General and administrative	85,395,922	73,517,456	-	-	85,395,922	73,517,456
Employment regulations	15,593,898	18,970,896	-	-	15,593,898	18,970,896
Employment services	207,531,521	151,520,796	-	-	207,531,521	151,520,796
Improvements and maintenance to facilities	3,258,145	1,922,157	-	-	3,258,145	1,922,157
Occupational safety and health	8,782,088	2,497,886	-	-	8,782,088	2,497,886
Rehabilitation services	33,923,260	28,004,316	-	-	33,923,260	28,004,316
Statistics and monitoring	613,784	648,083	-	-	613,784	648,083
Unemployment services	19,577,439	21,847,415	-	-	19,577,439	21,847,415
Work incentive	51,367,576	92,917,564	-	-	51,367,576	92,917,564
Unemployment insurance	-	-	497,755,409	270,887,419	497,755,409	270,887,419
Disability insurance	-	-	21,062,705	20,806,224	21,062,705	20,806,224
Drivers' insurance	-	-	4,272,896	6,892,190	4,272,896	6,892,190
Total expenses	426,043,633	391,846,569	523,091,010	298,385,833	949,134,843	690,232,402
Decrease in net assets (deficit) before special item and transfers	(39,187,352)	(73,804,306)	(44,494,009)	(11,016,611)	(83,681,361)	(84,820,947)
Special item	(22,078,590)	-	(2,752,448)	-	(24,831,038)	-
Net transfers	49,492,018	65,137,498	(53,582,420)	(69,308,281)	(4,090,402)	(4,171,763)
Decrease in net assets (deficit)	(11,773,924)	(9,666,838)	(100,828,878)	(80,325,872)	(112,602,802)	(88,992,710)
Net assets (deficit) - beginning of year, as restated	(72,775,364)	(64,108,528)	616,289,000	696,614,872	543,513,636	632,506,346
Net assets (deficit) - end of year	\$ (84,549,288)	\$ (72,775,364)	\$ 515,460,122	\$ 616,289,000	\$ 430,910,834	\$ 543,513,636

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

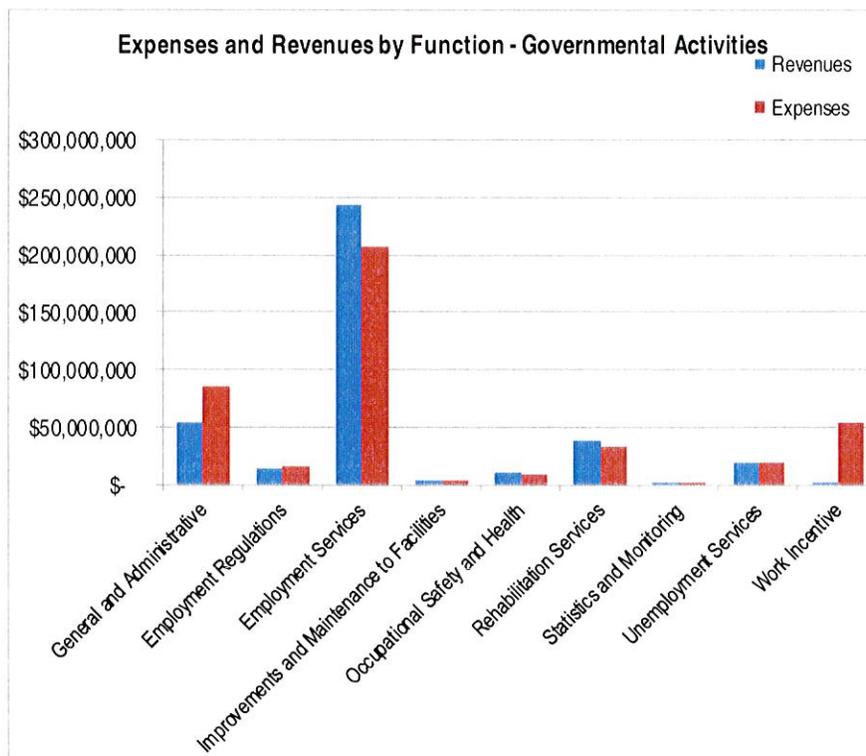
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Government-wide Financial Analysis (Continued)

Governmental Activities

Governmental activities expenses exceed program revenues by **\$39,372,078 (9%)**, resulting in the use of transfers from business-type activities of **\$54,113,031**. Approximately **45%** of the total revenue came from operating grants and contributions, primarily from federal financial assistance. The Department's governmental activities major sources of revenues are accounted for general and administrative, employment services and rehabilitation services functions. Those revenues represent **87%** of the total governmental activities revenues for the year ended June 30, 2009.

The following chart presents expenses and revenues comparison by function of the governmental activities for the year ended June 30, 2009:



During current fiscal year, total expenses increased by **\$34,197,064** or **9%** in comparison with fiscal year 2008. The largest expenses were general and administrative, employment services and work incentive functions in 2009.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Government-wide Financial Analysis (Continued)

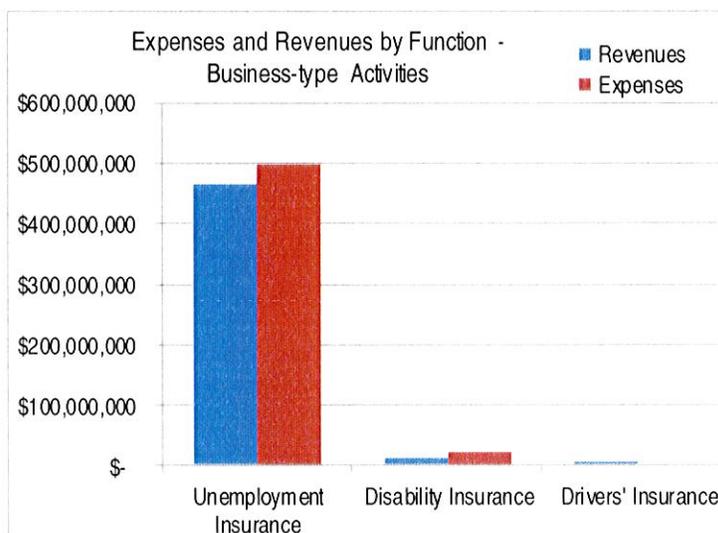
Business-type Activities

The Department's major sources of revenues are derived from the business-type activities, which represent **55%** and **47%** of total revenues from all sources for the years ended June 30, 2009 and 2008, respectively. Charges for services consisting of insurance premiums presented a decrease of **\$13,635,683**, which represented a decrease of **5%** compared with the results obtained during fiscal year 2008.

During the year ended June 30, 2009, the Department also earned net investment income amounting to **\$19,537,506** from different financial institutions. Interest income derived from the unemployment insurance program amounted to **\$23,627,786**, which represents **120%** of total investment income earned during the year.

During the year 2009, the Department incurred expenses for the business-type activities amounting to **\$523,091,010**, related to benefits of the unemployment insurance, temporary non-occupational disability insurance and drivers' social security insurance programs claimed by eligible citizens. Moreover, expenses from business-type activities exceeded program revenues by **\$281,179,313** in 2009 resulting from the increase of expenses amounting to **\$224,705,177**.

The following chart presents expenses and revenues comparison by function of the business-type activities for the year ended June 30, 2009:



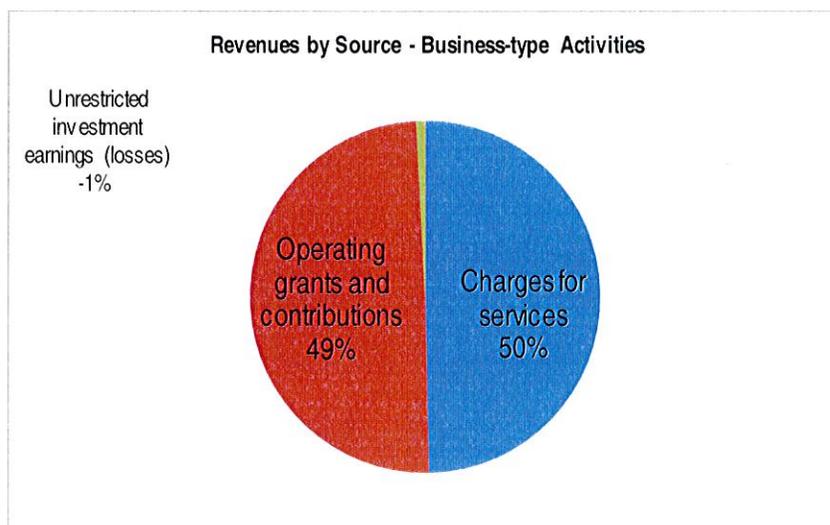
**COMMONWEALTH OF PUERTO RICO
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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Government-wide Financial Analysis (Continued)

Business-type Activities (Continued)

The following chart presents revenues by source of the business-type activities for the year ended June 30, 2009:



Financial Analysis of the Department's Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year. As of the end of the fiscal year 2009, the Department's governmental funds reported combined ending fund deficit amounting to **\$48,920,850** at the close of current year, which represents increase of **\$9,151,392** compared with prior fiscal year 2008. Total expenditures of the governmental funds exceeded total revenues by **\$43,711,819**. This was offset by other financing sources, mainly transfers of funds amounting to **\$54,113,031** from the enterprise funds for operational purposes. This year the excess of expenditures over revenues decreased by **\$27,773,123** compared with prior fiscal year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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Financial Analysis of the Department's Funds

Governmental Funds (Continued)

Approximately **\$73,902,408** of the fund balances (deficit) is reserved or designated to indicate that it is not available for new spending because it has already been committed: (1) to liquidate contracts and purchase orders of the prior fiscal year or (2) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Department. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was **\$6,779,526**, while the total general fund balance was **\$8,553,657**. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents **14%** of total general fund expenditures, while total fund balance represents **18%** of that same amount.

The fund balance of the Department's general fund decreased by **\$25,973,333** as a result of the current fiscal year's change in financial position. This represents a **75%** decrease when compared to the general fund deficit reported in the fiscal year 2008, as restated. Key factors causing such decrease are as follows:

- Total general fund revenues for the fiscal year 2009 were **\$22,844,754**, while total expenditures for the fiscal year 2009 were **\$47,143,550**.
- The early retirement program cost of **\$14,931,591**. Change in fund balance, excluding this item was an increase of **\$5,780,199**.
- The cash shortfall for the fiscal year 2009 was **\$8,250,358**.

Enterprise Funds

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. As discussed in the business-type activities above, the Department's net assets decreased by **\$100,828,878** as a result of operations in the enterprise funds. This resulted mainly from the decrease in net assets of **\$80,502,403** from the Unemployment Insurance Fund, including restatement. The following are some of the most important financial highlights of the enterprise funds financial statements:

- The Department's enterprise funds reported combined ending fund net assets amounting to **\$515,460,122** at the close of current year.
- Total operating expenses of the enterprise funds exceeded total revenues for a net operating loss of **\$281,179,313**. This was offset by nonoperating revenues, mainly contributions from the federal government for unemployment benefit payments.
- Total benefits paid by the enterprise funds to eligible citizens during the year ended June 30, 2009, amounted to **\$502,235,063**.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

Financial Analysis of the Department's Funds (Continued)

Enterprise Funds (Continued)

- The early retirement program cost of **\$2,752,449**. Change in fund net assets, excluding this item was **\$98,076,429**.

Agency Fund

At June 30, 2009, the Department's agency fund has available cash and equivalents amounting to **\$6,109,313** to pay for unmet claims between employers and employees. This represents an increase in the agency fund of **\$2,084,807** when compared to the fiscal year 2008.

General Fund Budgetary Highlights

The general fund's budget for the fiscal year ended June 30, 2009 was **\$14,556,300** and the actual expenditures were **\$14,460,533**. The total expenditures represented **99.34%** of the total budget availability for the fiscal year. The Department's expenditure rate presents a similar rate when compared to the prior year's performance of **99.96%**.

The following table summarizes the budget, expenditures and unexpended balance for fiscal years ended June 30, 2009 and 2008.

Budget and Expenditures Comparison

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenues	\$ 14,556,300	\$ 19,621,359	\$ (5,065,059)
Expenditures	14,460,533	19,614,149	(5,153,616)
Unexpended balance	<u>\$ 95,767</u>	<u>\$ 7,210</u>	<u>\$ 88,557</u>

Capital Assets and Debt Administration

Capital Assets

The capital assets of the Department 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, 2009 amounted to a net book value of **\$3,366,487**. Actual capitalized assets for the year amounted to **\$533,925**, while depreciation expense for the year totaled **\$756,532**.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Governmental activities:			
Furniture, fixtures and equipment	\$ 2,878,975	\$ 3,015,006	\$ (136,031)
Vehicles	471,264	536,176	(64,912)
	<u>3,350,239</u>	<u>3,551,182</u>	<u>(200,943)</u>
Business-type activities:			
Furniture, fixtures and equipment	16,248	37,912	(21,664)
Total capital assets	<u>\$ 3,366,487</u>	<u>\$ 3,589,094</u>	<u>\$ (222,607)</u>

Additional information on the Department's capital assets can be found in **Note 9** of the basic financial statements.

Long-term Debt

The Department's long-term liabilities increased by **\$9,441,649**, which represents a **25%** increase in comparison with fiscal year 2008. Such increase resulted mainly from the early retirement program amounting to **\$13,825,338**. Change in long-term debt, excluding this special item, was a decrease by **\$4,683,689** or **11.5%**.

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Governmental activities:			
Compensated absences	\$ 30,309,502	\$ 34,880,157	\$ (4,570,655)
Christma bonus	1,522,176	1,676,931	(154,755)
Due to other governmental entities	12,292,839	-	12,292,839
	<u>44,124,517</u>	<u>36,557,088</u>	<u>7,567,429</u>
Business-type activities:			
Compensated absences	2,010,947	1,669,226	341,721
Due to other governmental entities	1,532,499	-	1,532,499
	<u>3,543,446</u>	<u>1,669,226</u>	<u>1,874,220</u>
Total long-term debt	<u>\$ 47,667,963</u>	<u>\$ 38,226,314</u>	<u>\$ 9,441,649</u>

Additional information on the Department's long-term liabilities can be found in **Note 10** of the basic financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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Economic Factors and Next Year's Budget

The economic factors of the Department must be analyzed as a component of the Commonwealth of Puerto Rico ("the Commonwealth"). During 2009, the Commonwealth was in a recession that began at the end of the fiscal year 2006. The average unemployment rate for the Commonwealth was 13.4% in the fiscal year 2009, which increased by 11% compared to the fiscal year 2008. The total employment average declined by 1.4% compared to the previous fiscal year. Based on the Puerto Rico Planning Board, the economy is expected to reflect another decrease of 3.6% for the fiscal year 2010. Moreover, the average unemployment rate will increase in 2010, since the total employment average again should decline in 2010.

The Department's budget for the fiscal year 2010 amounts to approximately **\$422,497,000**, which was adopted in July 2009. The legislative appropriations amount to **\$11,723,000** for the fiscal year 2010. The Department expects to transfer unrestricted funds from the Disability and Driver's Insurance Funds as additional resources to the general fund as has occurred since the fiscal year 2007.

Requests for Information

This report is designed to provide a general overview of the Department's finances and to demonstrate the accountability of the funds administered by the Department. For questions regarding the information provided or additional financial information requests please contact the Assistant Secretary of Management Affairs of the Department of Labor and Human Resources, 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)
AS OF JUNE 30, 2009**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS:				
Cash and cash equivalents in commercial banks	\$ 368,545	\$ 66,923	\$ 435,468	\$ -
Cash and cash equivalents in governmental bank	24,422,258	1,749,847	26,172,105	559,694
Cash held by PR Secretary of Treasury	31,826,876	59,528,925	91,355,801	-
Accounts receivable:				
Insurance premiums, net	-	4,381,965	4,381,965	-
Accrued investment interest	-	190,642	190,642	-
Due from federal government	222,992,477	-	222,992,477	976,490
Other receivables	1,901,953	41,972	1,943,925	26,767
Due from other governmental entities	-	-	-	623,946
Internal balances	(7,708,064)	7,708,064	-	-
Prepays	-	-	-	151,908
Restricted assets:				
Cash and cash equivalents in commercial banks	-	1,768,505	1,768,505	-
Cash held by US Treasury Department	-	479,094,055	479,094,055	-
Accounts receivables, net	-	67,499,362	67,499,362	-
Investments	-	29,109,883	29,109,883	-
Capital assets, net of accumulated depreciation	3,350,239	16,248	3,366,487	281,915
TOTAL ASSETS	<u>277,154,284</u>	<u>651,156,391</u>	<u>928,310,675</u>	<u>2,620,720</u>
LIABILITIES:				
Accounts payable and accrued liabilities	172,055,718	1,150,375	173,206,093	2,354,963
Deferred revenue	5,003,910	7,792,017	12,795,927	-
Due to other governmental entities	311,124	77,526	388,650	-
Due to subrecipients	140,208,303	-	140,208,303	-
Insurance benefits payable	-	123,132,905	123,132,905	-
Long-term liabilities:				
Due within one year	21,618,847	1,642,489	23,261,336	254,956
Due in more than one year	22,505,670	1,900,957	24,406,627	2,971,608
Total liabilities	<u>361,703,572</u>	<u>135,696,269</u>	<u>497,399,841</u>	<u>5,581,527</u>
NET ASSETS (DEFICIT):				
Invested in capital assets	3,350,239	16,248	3,366,487	281,915
Restricted for payment of insurance benefits	-	431,949,391	431,949,391	-
Unrestricted	(87,899,527)	83,494,483	(4,405,044)	(3,242,722)
TOTAL NET ASSETS (DEFICIT)	<u>\$ (84,549,288)</u>	<u>\$ 515,460,122</u>	<u>\$ 430,910,834</u>	<u>\$ (2,960,807)</u>

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets (Deficit)			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities:							
General and administrative	\$ 85,395,922	\$ -	\$ 54,036,262	\$ (31,359,660)	\$ -	\$ (31,359,660)	\$ -
Employment regulations	15,593,898	-	14,854,194	(739,704)	-	(739,704)	-
Employment services	207,531,521	-	244,613,515	37,081,994	-	37,081,994	-
Improvements and maintenance to facilities	3,258,145	-	3,622,921	364,776	-	364,776	-
Occupational safety and health	8,782,088	-	10,350,779	1,568,691	-	1,568,691	-
Rehabilitation services	33,923,260	-	36,009,073	2,085,813	-	2,085,813	-
Statistics and monitoring	613,784	-	663,828	50,044	-	50,044	-
Unemployment services	19,577,439	-	20,251,083	673,644	-	673,644	-
Work incentive	51,367,576	-	2,269,900	(49,097,676)	-	(49,097,676)	-
Total governmental activities	426,043,633	-	386,671,555	(39,372,078)	-	(39,372,078)	-
Business-type Activities:							
Unemployment insurance	497,755,409	223,711,237	240,775,584	-	(33,268,588)	(33,268,588)	-
Disability insurance	21,062,705	13,528,191	-	-	(7,534,514)	(7,534,514)	-
Drivers' insurance	4,272,896	4,672,269	-	-	399,373	399,373	-
Total business-type activities	523,091,010	241,911,697	240,775,584	-	(40,403,729)	(40,403,729)	-
Total	\$ 949,134,643	\$ 241,911,697	\$ 627,447,139	(39,372,078)	(40,403,729)	(79,775,807)	-
Component units:							
Right to Employment Administration	\$ 21,343,058	\$ -	\$ 13,692,013				(7,651,045)
General Revenues:							
Grants and contributions not restricted for specific programs							1,188,365
Unrestricted investment earnings (losses)				184,726	(4,090,280)	(3,905,554)	23,824
Special item - Early retirement program				(22,078,590)	(2,752,449)	(24,831,039)	-
Transfers				49,492,018	(53,582,420)	(4,090,402)	4,438,009
Total general revenues, special item and transfers				27,598,154	(60,425,149)	(32,826,995)	5,650,218
CHANGE IN NET ASSETS (DEFICIT)				(11,773,924)	(100,828,878)	(112,602,802)	(2,000,827)
NET ASSETS (DEFICIT) - Beginning of year, as restated				(72,775,364)	616,289,000	543,513,636	(959,980)
NET ASSETS (DEFICIT) - End of year				\$ (84,549,288)	\$ 515,460,122	\$ 430,910,834	\$ (2,960,807)

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

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

**BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2009**

	Major Funds					Total Governmental Funds
	General Fund	Work Opportunity Incentive Fund	Human Resources and Occupational Development Council	Vocational Rehabilitation Administration	Other Governmental Funds	
ASSETS						
Cash in commercial banks	\$ -	\$ 368,545	\$ -	\$ -	\$ -	\$ 368,545
Cash in governmental bank	3,542,613	17,531,454	128,330	3,219,861	-	24,422,258
Cash held by Secretary of Treasury	29,032,787	-	-	1,623,376	1,170,713	31,826,876
Due from:						
Federal government	-	-	212,208,417	5,882,738	4,901,322	222,992,477
Other funds	2,495,257	12,878,940	-	-	2,946,268	18,320,465
Other receivables	-	1,020	275,431	1,625,000	502	1,901,953
TOTAL ASSETS	\$ 35,070,657	\$ 30,779,959	\$ 212,612,178	\$ 12,350,975	\$ 9,018,805	\$ 299,832,574
LIABILITIES AND FUND BALANCES (DEFICIT)						
LIABILITIES:						
Accounts payable	\$ 10,624,014	\$ 138,961,179	\$ 5,150,403	\$ 11,415,117	\$ 5,905,005	172,055,718
Due to:						
Other funds	10,595,430	15,433,099	-	-	-	26,028,529
Subrecipients	-	-	140,208,303	-	-	140,208,303
Other governmental entities	5,297,556	92,392	-	67,015	-	5,456,963
Deferred revenues	-	1,890,111	-	-	3,113,800	5,003,911
Total liabilities	26,517,000	156,376,781	145,358,706	11,482,132	9,018,805	348,753,424
FUND BALANCES (DEFICIT):						
Reserved for encumbrances	1,774,131	-	6,433,200	2,373,645	2,501,160	13,082,136
Reserved for other specified purposes	-	-	60,820,272	-	-	60,820,272
Unreserved (deficit)	6,779,526	(125,596,822)	-	(1,504,802)	(2,501,160)	(122,823,258)
Total fund balances (deficit)	8,553,657	(125,596,822)	67,253,472	868,843	-	(48,920,850)
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	\$ 35,070,657	\$ 30,779,959	\$ 212,612,178	\$ 12,350,975	\$ 9,018,805	\$ 299,832,574

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

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

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2009**

Total fund deficit per balance sheet - governmental funds	\$ (48,920,850)
 Amounts reported for governmental activities in the Statement of Net Assets (Deficit) are different than the amounts reported in the Balance Sheet - Governmental Funds because:	
Capital assets used in governmental activities are not financial resources and therefore not recognized in the Balance Sheet - Governmental Funds	3,350,239
Accrued compensated absences are not due and payable in the current period nor with current year budget resources and therefore not recognized in the Balance Sheet - Governmental Funds	(30,309,502)
Early retirement program obligation is not due and payable in the current period nor with current year budget resources and therefore not recognized in the Balance Sheet - Governmental Funds	(7,146,999)
Accrued christmas bonus is not due and payable in the current period nor with current year budget resources and therefore not recognized in the Balance Sheet - Governmental Funds	<u>(1,522,176)</u>
 Total net deficit of governmental activities	 <u><u>\$ (84,549,288)</u></u>

The notes to the basic 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 (DEFICIT) – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	Major Funds					Total Governmental Funds
	General Fund	Work Opportunity Incentive Fund	Human Resources and Occupational Development Council	Vocational Rehabilitation Administration	Other Governmental Funds	
REVENUES:						
Legislative appropriations	\$ 552,300	\$ -	\$ -	\$ 14,004,000	\$ -	\$ 14,556,300
Intergovernmental federal grants	-	1,567,697	233,873,626	79,184,406	32,485,267	347,110,996
Donations from other governmental entities	22,173,160	75,962	-	-	-	22,249,122
Interest	75,064	109,662	-	-	-	184,726
Other	44,230	104	2,078,840	31,963	-	2,155,137
Total revenues	22,844,754	1,753,425	235,952,466	93,220,369	32,485,267	386,256,281
EXPENDITURES:						
General and administrative	25,486,275	-	8,162,943	56,517,069	104,043	90,270,330
Employment regulation	15,269,308	-	-	-	535,034	15,804,342
Employment services	-	-	199,149,269	-	7,989,497	207,138,766
Improvements and maintenance to facilities	-	-	-	3,387,427	-	3,387,427
Occupational safety and health	6,387,967	-	-	-	2,440,396	8,828,363
Rehabilitation services	-	-	-	34,279,407	-	34,279,407
Statistics and monitoring	-	-	-	-	613,784	613,784
Unemployment services	-	-	-	-	19,478,639	19,478,639
Work incentive	-	50,104,532	-	-	62,510	50,167,042
Total expenditures	47,143,550	50,104,532	207,312,212	94,183,903	31,223,903	429,968,100
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,298,796)	(48,351,107)	28,640,254	(963,534)	1,261,364	(43,711,819)
OTHER FINANCING SOURCES (USES):						
Transfers in	18,488,961	49,172,314	-	4,600,000	-	72,261,275
Transfers out	(5,500,000)	(10,636,880)	(5,371,013)	-	(1,261,364)	(22,769,257)
Total other financing sources (uses)	12,988,961	38,535,434	(5,371,013)	4,600,000	(1,261,364)	49,492,018
SPECIAL ITEM - Early retirement program	(14,663,498)	(268,093)	-	-	-	(14,931,591)
NET CHANGE IN FUND BALANCES (DEFICIT)	(25,973,333)	(10,083,766)	23,269,241	3,636,466	-	(9,151,382)
FUND BALANCES (DEFICIT) - Beginning of year, as restated	34,526,990	(115,513,056)	43,984,231	(2,767,623)	-	(39,769,458)
FUND BALANCES (DEFICIT) - End of year	\$ 8,553,657	\$ (125,596,822)	\$ 67,253,472	\$ 868,843	\$ -	\$ (48,920,850)

The notes to the basic 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 (DEFICIT) –
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

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Net change in fund deficit - total governmental funds \$ (9,151,392)

**Amounts reported for governmental activities in the Statement of
Activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (200,943)

Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore are reported as expenditures in governmental funds. This is the amount by which accrued compensated absences decreased. 4,570,655

Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore are reported as expenditures in governmental funds. This is the amount by which early retirement program obligation increased. (7,146,999)

Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore are reported as expenditures in governmental funds. This is the amount by which accrued Christmas bonus decreased. 154,755

Change in net deficit of governmental activities \$ (11,773,924)

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

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

**STATEMENT OF NET ASSETS – ENTERPRISE FUNDS
AS OF JUNE 30, 2009**

	Business-type Activities - Enterprise Funds			
	Unemployment Insurance	Disability Insurance	Drivers Insurance	Total Enterprise Funds
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents in commercial bank	\$ -	\$ 23,654	\$ 43,269	\$ 66,923
Cash and cash equivalents in commercial bank-restricted	1,048,528	719,977	-	1,768,505
Cash and cash equivalents in governmental bank	-	1,694,445	55,402	1,749,847
Cash held by PR Secretary of Treasury	-	51,704,308	7,824,617	59,528,925
Cash held by US Treasury Department-restricted	479,094,055	-	-	479,094,055
Receivable, net:				
Insurance premiums, net	63,542,658	3,364,504	1,017,461	67,924,623
Accrued insurance interest	1,510,681	-	-	1,510,681
Accrued investment interest	-	190,642	-	190,642
Due from federal government	2,446,023	-	-	2,446,023
Due from other funds	7,535	-	5,044,776	5,052,311
Due from other governmental entities	-	-	7,523	7,523
Other	-	7,356	27,095	34,451
Total current assets	<u>547,649,480</u>	<u>57,704,886</u>	<u>14,020,143</u>	<u>619,374,509</u>
NONCURRENT ASSETS:				
Due from other funds	-	-	20,803,974	20,803,974
Restricted investments	-	29,109,883	-	29,109,883
Capital assets, net of accumulated depreciation	-	16,248	-	16,248
TOTAL ASSETS	<u>547,649,480</u>	<u>86,831,017</u>	<u>34,824,117</u>	<u>669,304,614</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	-	983,312	167,063	1,150,375
Due to other funds	17,340,664	807,558	-	18,148,222
Deferred revenue	5,505,976	2,266,301	19,741	7,792,018
Due to other governmental entities	-	499,991	219,046	719,037
Compensated absences	-	659,185	341,793	1,000,978
Insurance benefits payable	121,706,444	976,865	449,596	123,132,905
Total current liabilities	<u>144,553,084</u>	<u>6,193,212</u>	<u>1,197,239</u>	<u>151,943,535</u>
NONCURRENT LIABILITIES:				
Due to other governmental entities	-	586,758	304,230	890,988
Compensated absences	-	497,280	512,689	1,009,969
TOTAL LIABILITIES	<u>144,553,084</u>	<u>7,277,250</u>	<u>2,014,158</u>	<u>153,844,492</u>
NET ASSETS:				
Invested in capital assets, net of related debt	-	16,248	-	16,248
Restricted for payment of insurance benefits	403,096,396	28,852,995	-	431,949,391
Unrestricted	-	50,684,524	32,809,959	83,494,483
TOTAL NET ASSETS	<u>\$ 403,096,396</u>	<u>\$ 79,553,767</u>	<u>\$ 32,809,959</u>	<u>\$ 515,460,122</u>

The notes to the basic 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 – ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

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	Business-type Activities - Enterprise Funds			
	Unemployment Insurance	Disability Insurance	Drivers Insurance	Total Enterprise Funds
OPERATING REVENUES				
Insurance premiums	\$ 223,711,237	\$ 13,528,191	\$ 4,672,269	\$ 241,911,697
Total operating revenues	223,711,237	13,528,191	4,672,269	241,911,697
OPERATING EXPENSES:				
Insurance benefits	497,755,409	3,153,409	1,326,245	502,235,063
General and administrative expenses	-	17,909,296	2,946,651	20,855,947
Total operating expenses	497,755,409	21,062,705	4,272,896	523,091,010
OPERATING INCOME (LOSS)	(274,044,172)	(7,534,514)	399,373	(281,179,313)
NONOPERATING REVENUES:				
Contributions from federal government	216,378,075	-	-	216,378,075
Contributions from US state government	769,723	-	-	769,723
Interest and investment earnings (losses)	23,627,786	(4,318,188)	227,908	19,537,506
Total nonoperating revenues	240,775,584	(4,318,188)	227,908	236,685,304
INCOME (LOSS) BEFORE AND SPECIAL ITEM AND TRANSFERS	(33,268,588)	(11,852,702)	627,281	(44,494,009)
SPECIAL ITEM - Early retirement program	-	(1,812,618)	(939,831)	(2,752,449)
TRANSFERS IN	530,611	-	-	530,611
TRANSFERS OUT	(47,764,426)	(2,902,027)	(3,446,578)	(54,113,031)
NET CHANGE IN NET ASSETS	(80,502,403)	(16,567,347)	(3,759,128)	(100,828,878)
NET ASSETS - Beginning of year, as restated	483,598,799	96,121,114	36,569,087	616,289,000
NET ASSETS - End of year	\$ 403,096,396	\$ 79,553,767	\$ 32,809,959	\$ 515,460,122

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

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

**STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009**

	Business-type Activities - Enterprise Funds			
	Unemployment Insurance	Disability Insurance	Drivers Insurance	Total Enterprise Funds
CASHFLOWS FROM OPERATING ACTIVITIES:				
Receipts from insurance taxes	\$ 215,050,443	\$ 14,428,192	\$ 4,836,149	\$ 234,314,784
Payments to suppliers	-	(9,088,314)	(739,993)	(9,828,307)
Payments to employees	-	(7,480,682)	(2,009,220)	(9,489,902)
Payments for insurance benefits	(490,065,192)	(2,943,805)	(1,226,237)	(494,235,234)
Net cash provided by (used in) operating activities	(275,014,749)	(5,084,609)	860,699	(279,238,659)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Contributions from federal government	213,932,052	-	-	213,932,052
Contributions from US state governments	769,724	-	-	769,724
Loans to other funds	-	-	(26,005,702)	(26,005,702)
Transfers from other sources	530,611	-	-	530,611
Transfers to other funds	(40,484,730)	(2,897,865)	(3,981,884)	(47,364,479)
Net cash provided by (used in) financing activities	174,747,657	(2,897,865)	(29,987,586)	141,862,206
CASHFLOWS FROM INVESTING ACTIVITIES:				
Interest received on deposits and investments	23,627,786	1,163,926	92,382	24,884,094
Proceeds from sales and maturities of investments	-	24,493,392	-	24,493,392
Purchase of investments	-	(26,270,375)	-	(26,270,375)
Net cash provided by (used in) investing activities	23,627,786	(613,057)	92,382	23,107,111
NET CHANGE CASH AND CASH EQUIVALENTS	(76,639,306)	(8,595,531)	(29,034,505)	(114,269,342)
CASH AND CASH EQUIVALENTS - Beginning of year, as restated	556,781,889	62,737,915	36,957,793	656,477,597
CASH AND CASH EQUIVALENTS - End of year	\$ 480,142,583	\$ 54,142,384	\$ 7,923,288	\$ 542,208,255
RECONCILIATION TO STATEMENT OF NET ASSETS - ENTERPRISE FUNDS:				
Cash and cash equivalents in commercial bank	\$ -	\$ 23,654	\$ 43,269	\$ 66,923
Cash and cash equivalents in commercial bank-restricted	1,048,528	719,977	-	1,768,505
Cash and cash equivalents in governmental bank	-	1,694,445	55,402	1,749,847
Cash held by PR Secretary of Treasury	-	51,704,308	7,824,617	59,528,925
Cash held by US Treasury Department-restricted	479,094,055	-	-	479,094,055
TOTAL CASH AND CASH EQUIVALENTS - End of year	\$ 480,142,583	\$ 54,142,384	\$ 7,923,288	\$ 542,208,255

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

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

**STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

	Business-type Activities - Enterprise Funds			
	Unemployment Insurance	Disability Insurance	Drivers Insurance	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ (274,044,172)	\$ (7,534,514)	\$ 399,373	\$ (281,179,313)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation expense	-	21,664	-	21,664
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(5,011,359)	2,211,301	163,327	(2,636,731)
Increase in due from other funds	(7,535)	-	-	(7,535)
Increase (decrease) in accounts payable and accrued liabilities	-	(192,539)	32,973	(159,566)
Decrease in due to other governmental entities	-	(206,527)	-	(206,527)
Increase (decrease) in deferred revenues	(3,641,900)	229,145	554	(3,412,201)
Increase in compensated absences	-	177,257	164,464	341,721
Increase in insurance benefits payable	7,690,217	209,604	100,008	7,999,829
Total adjustments	(970,577)	2,449,905	461,326	1,940,654
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (275,014,749)	\$ (5,084,609)	\$ 860,699	\$ (279,238,659)

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

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

**STATEMENT OF NET ASSETS – AGENCY FUND
AS OF JUNE 30, 2009**

	<u>Agency Fund</u>
ASSETS	
Cash in commercial bank	<u>\$ 6,109,313</u>
TOTAL ASSETS	<u><u>\$ 6,109,313</u></u>
LIABILITIES:	
Accounts payable	<u>\$ 6,109,313</u>
TOTAL LIABILITIES	<u><u>\$ 6,109,313</u></u>

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 ("the Commonwealth") created by Act 15 of April 14, 1931, as amended, to promote the working class welfare, improve the job conditions, and help reduce unemployment in Puerto Rico. The Governor of the Commonwealth appoints the Secretary of the Department.

The Department is included for financial reporting purposes as an instrumentality of the Commonwealth's financial statements. Its governmental funds financial data is included as part of the general government section in the general fund, while its enterprise funds financial data is included as part of the business-type activities for proprietary funds of the Commonwealth's basic financial statements.

The accompanying basic financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). These basic financial statements present the financial position, the results of operations of the Department and its various funds and fund types, and the cash flows of the enterprise funds. The basic financial statements are presented as of June 30, 2009, and for the fiscal year then ended. These statements also include other agencies, which are organizational components of the Department as follows:

Human Resources and Occupational Development Council

The Human Resources and Occupational Development Council (the Council), was created by Act 97 of December 18, 1991. The Council has the responsibility of the administration, support and control of the financial accountability, monitoring, evaluation and program operation of all sub-recipients benefiting from the Workforce Investment Act (WIA) and other federal programs funds.

Vocational Rehabilitation Administration

The Vocational Rehabilitation Administration (the Administration) was created by Act 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 Act 97 of June 10, 2000. The Administration provides rehabilitation services to physical and mentally impaired individuals consistent with the strengths, resources, priorities, interests, abilities and capacities to assist them to obtain an employment and improve their quality of life and self-esteem.

Future Entrepreneurs and Workers' Training Administration

The Future Entrepreneurs and Workers Training Administration (FEWTA) was created by Act 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, and through financial assistance received from federal agencies. FEWTA operates through several resident centers, workshops, and various other training programs.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

28

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

The financial statements of FEWTA were prepared using the cash basis method of accounting, which is a different reporting model from the Department. Therefore, the financial statements of FEWTA cannot be presented within the Department's basic financial statements.

Component Unit

A component unit is a legally separate entity, for which the Department is financially accountable, or the nature or significance of their relationship with the Department is such, that their exclusion would cause the Department's basic financial statement to be misleading or incomplete. 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. US 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.

The Department has a discretely presented component unit, the Right to Employment Administration, included in the accompanying basic financial statements because of the nature of the services provided and the Department's financial oversight over it in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

The Right to Employment Administration

The Right to Employment Administration (REA) is a component unit and an instrumentality of the Commonwealth created by Act 115 of June 21, 1968, known as "Right to Employment Act". REA is ascribed to the Puerto Rico Department of Labor and Human Resources pursuant to the provisions of Act 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 incentives through the island.

REA 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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

29

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Complete financial statements of the Department's agencies and component unit can be directly obtained by contacting their administrative offices:

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

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

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

Effective January 8, 2012, the Department was reorganized to include the FEWTA and REA as programs of the Department. Also, the Council's name was changed to Labor Right Administration.

B. Government-Wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets (Deficit) and the Statement of Activities report information on all of the nonfiduciary activities of the Department and its component unit. The effect of interfund balances has been removed from the government-wide Statement of Net Assets (Deficit), except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide Statement of Activities have not been eliminated. The Department's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for services and interest earned on investment securities. Likewise, the reporting entity is reported separately from certain legally separate component units for which the reporting entity is financially accountable. Following is a description of the Department's government-wide financial statements. The Statement of Net Assets (Deficit) presents the Department's assets and liabilities, with the difference reported as net assets.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Net assets are reported in three categories:

- Invested in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Department's policy generally to use restricted resources first and then the unrestricted resources as they are needed.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) fees and charges to customers for services rendered or for privileges provided by a given function, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements – Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Department that are reported in the accompanying basic financial statements have been classified into governmental, enterprise and agency funds.

Separate financial statements are provided for governmental funds, enterprise funds and agency fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column, except for those governmental nonmajor funds which management has elected to present separately in the financial statements. Fund balances at the beginning of the year are restated to reflect changes in major fund definition. In the case of governmental funds, each individual agency of the Department has been reported as a separate major fund in the fund financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

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.

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. Revenue is recognized as soon as it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within sixty (60) days, to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues -federal grants, there are essentially two types of revenues. 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. Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. 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, 2009, has been reported only in the government-wide financial statements.
- Executory purchase orders and contract are recorded as a reservation of fund balance.

Enterprise Funds, Agency Fund and Discretely Presented Component Unit Financial Statements

The financial statements of the enterprise funds, agency fund and discretely presented component unit are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Enterprise Funds, Agency Fund and Discretely Presented Component Unit Financial Statements (Continued)

The accounting and reporting policies of the Department conform to US GAAP, as applicable to governmental entities. The Department follows GASB Statements under the hierarchy established by GASB Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its basic financial statements. Each enterprise fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with GASB pronouncements. The Department's enterprise funds have elected not to apply FASB pronouncements issued after November 30, 1989.

Enterprise funds distinguish between operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The major operating revenues of the Department are as follows:

- Unemployment Insurance Fund – Amounts for charges made to individual employers for payment of unemployment benefits.
- Disability Insurance Fund – Amounts for charges made to individual employers for payment of temporary non-occupational disability benefits.

Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The major nonoperating revenues of the Department's enterprise funds are mainly contributions from the federal government under various extended unemployment benefits programs.

Fund Accounting

The Department reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined. The nonmajor funds are combined in a single column in the fund financial statements column, except for those governmental nonmajor funds, which management has elected to present separately in the financial statements. Fund balances at the beginning of the year are restated to reflect changes in major fund definition.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Governmental Funds – The Department reports the following major 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.

Work Opportunity Incentive Fund – is the accounting entity in which revenues derived from state or other restricted revenue source is accounted for the uses and limitations specified by state statutes to promote job opportunities and the creation of high demand employments in current markets.

Human Resources and Occupational Development Council – is the accounting entity that accounts for revenues derived from federal grants for the WIA, the Workforce Innovation in Regional Economic Development Initiative (WIRED), the Disability Navigators, and the Trade Adjustments Assistance.

Vocational Rehabilitation Administration – is the accounting entity that accounts for revenues derived from state and federal grants for rehabilitation services, improvements and maintenance to facilities and other funds.

Enterprise Funds – 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 Department reports the following major enterprise funds:

Unemployment Insurance Fund – It is used to account for contributions made by employers to provide unemployment benefits under the State Unemployment Insurance Program created by Act 74 on June 21, 1956.

Disability Insurance Fund – It is used to account for disability benefits to remedy temporarily the loss of income as a result of disability caused by sickness or accident unrelated to the employment under the Temporary Non-occupational Disability Insurance Program created by Act 139 on June 26, 1968.

Drivers' Insurance Fund – It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico under the Drivers' Social Security Insurance Program created by Act 428 on June 15, 1950. The plan also includes benefits for health and life insurance.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

34

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

The Department's enterprise funds provide unemployment compensation, non-occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the Department. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered as a consequence of their employment.

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 US Department of Labor (US DOL) include: (1) allocating available administrative funds among states; (2) administering the Unemployment Trust Fund (UTF) through the US 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 accounted for in the Department's Unemployment Insurance Fund.

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 Regular Unemployment (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 US 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 Extended Benefits (EB) and advances to states whose UTF account balances are low or exhausted. US 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

The quarterly tax rate imposed for the State UI 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.

Unemployment benefits are provided under UC and the EB programs as follows:

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.

Temporary Non-occupational Disability Insurance Program – This program consists of a benefit plan for workers. A tax of .6% is levied by the program of which the employer and employee pays .3% each. The 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 Department's Disability Insurance Fund and are deposited in an interest bearing account to provide for future claims, as established by law.

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' Social Security Insurance Program – This program 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. The program's operations are accounted for in the Department's Drivers' Insurance Fund.

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

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 operating revenue in the corresponding enterprise fund.

Agency Fund – 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. These funds are custodial in nature (assets equals liabilities) and do not involve measurement of results of operations.

Discretely Presented Component Unit – Discrete presentation of component unit is used to present the financial information of entities that do not qualify to be blended, in accordance with GASB No. 14, as amended by GASB No. 39, with the funds of the reporting entity. The component unit column in the government-wide financial statements is used to report the financial activities of the Department's discretely presented component unit. The financial statements of this component unit are presented following accrual basis of accounting.

D. Budgetary Accounting

The Department's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenue is generally recognized when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrances were established, as prescribed by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. 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.

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.

The Budgetary Comparison Schedule – General Fund presents only the information for the general fund for which there is a legally adopted budget, as required by US GAAP. See notes to Budgetary Comparison Schedule – General Fund for a reconciliation of such statement with the Statement of Revenues, Expenditures, and Changes in Fund Balance for the general fund. The special revenue funds do not have a legally mandated budget.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents

Cash accounts of the Department as presented in the Balance Sheet - Governmental Funds are mainly held by the Department of Treasury of the Commonwealth of Puerto Rico (PR Treasury). All disbursements of the Department are made through the Government Development Bank for Puerto Rico (GDB), an internal service unit of the Commonwealth. GDB maintains separate codes at the general government account to identify each governmental unit. No collateral was maintained for cash accounts in GDB as of June 30, 2009. 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.

Cash balances not held at GDB are controlled by various special collector officials and deposited in qualified depositories. Under the Commonwealth's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the PR Treasury.

The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the US Treasury. Interest earned over such deposit is retained in the fund.

Cash and cash equivalents of the component unit are maintained in separate bank accounts, from those of the Department in its own name. The REA is authorized to deposit only in institutions approved by the PR Treasury, 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, 2009. Also, the REA has all bank accounts with GDB. Deposits with GDB are not collateralized, however, are guaranteed by the Commonwealth.

F. Restricted Investments

Investments include US Government and agencies' obligations, mortgage backed securities, local governmental obligations, and corporate debt and equities. Investment securities are presented at fair value. Changes in the fair value of investment are presented as investment earnings (losses) in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets - Enterprise Funds. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

G. Receivables

Unemployment, disability and drivers' insurance receivables in the enterprise funds are stated net of estimated allowance for uncollectible accounts, which are determined based upon past collection experience. Intergovernmental receivables primarily represent amounts owed to the Department for reimbursement of expenditures incurred pursuant to the federally funded programs.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventories

Inventories are stated at the lower of cost or market and predominantly on a first-in, first-out basis. Inventories are recorded as expenditures when purchased, rather than capitalized as an asset. Only significant amounts of inventories at the end of the year are capitalized in the governmental funds. A fund balance reserve equal to the value of the inventories is established in the general fund and in other governmental funds to indicate that the inventories do not constitute expendable financial resources available for appropriation. However, inventories are capitalized in the Statement of Net Assets (Deficit) under Governmental Activities.

The discretely presented component unit uses 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.

I. Prepaid Items

Prepaid balances include payments made by Department and the discretely presented component unit in the current year applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

J. Restricted Assets

Funds set aside for specified purposes are classified as restricted assets, since their use is limited for a specific purpose by applicable agreements or required by law. Restricted assets in the enterprise funds mainly include amounts set aside for the payment of unemployment and disability insurance benefits.

K. Capital Assets

Capital assets, which include furniture, equipment, and vehicles, are stated at cost less accumulated depreciation and amortization, and are reported in the governmental activities column and component unit column in the government-wide financial statements. The Department defines capital assets as assets that have an initial individual cost of \$25,000 or more at the date of acquisition and have a useful life of five or more years, while the Council and the Administration use an initial individual cost of \$5,000 and \$500, respectively. 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. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

All buildings, including related improvements, owned or under capital lease by the Department and its component unit are recorded as capital assets of the Department of Transportation and Public Works of the Commonwealth. Accordingly, all major improvements and betterments done by the Department and its component unit are charged to expenditures in the governmental funds financial statements and reported as an expense in the government-wide financial statements.

Capital assets utilized in governmental funds are recorded as expenditures in the governmental funds financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the enterprise funds and the component unit's financial statements.

Capital assets of the Department are depreciated using the straight-line basis over the estimated useful lives of the depreciable assets. Estimated useful lives are as follows:

	<u>Years</u>
Furniture and equipment	5 - 10
Computer equipment and software	5
Vehicles	5

The capital assets of the component unit are recorded in accordance with the applicable standards of the component unit and under its own capitalization threshold of \$100. Depreciation has been recorded when required by those standards based on the type of assets, use, estimated useful lives of the respective assets, and on the nature of each component unit's operations.

Estimated useful lives of capital assets reported by the component unit are as follows:

	<u>Years</u>
Furniture and equipment	4 - 10
Computer equipment and software	4
Vehicles	5

The Department and its component unit follow the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries – an amendment of GASB Statement No. 34*. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Revenue

Deferred revenue 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 balance sheet and revenue is recognized. Deferred revenue at the government-wide and enterprise funds level arises only when the Department receives resources before it has a legal claim to them.

M. Benefits Payable

Benefits payable arise from participants' insurance benefit claims of the unemployment, disability and drivers' insurance programs in the enterprise funds. Liabilities for incurred but unpaid benefits and for benefit adjustment expenses are based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The insurance benefits liability is reported as a current liability in accompanying the statement of net assets for business-type activities and the statement of net assets – enterprise funds.

N. Long term obligations

The liabilities reported in the government-wide financial statements include the Department's compensated absences obligations (vacation and sick leave), accrued pension plan obligation (early retirement program), and the employees' Christmas bonus. Long-term obligations financed by the enterprise funds and component unit are recorded as liabilities in those funds and in the discretely presented component unit column.

O. Compensated Absences

The Department's and its component unit's employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. The Department's and its component unit's employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated benefits are accrued when incurred in the government-wide financial statements and in the enterprise funds financial statements, when the employee meets such criteria. Such compensated benefits accrual also includes related estimated payroll taxes.

The "Public Service Personnel Law" requires the Department and its component unit to pay annually the accumulated vacation and sick leave earned in excess of the limits mentioned above.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Reservations of Fund Balances – Governmental Funds

The governmental funds financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditures or (2) legally segregated for a specific future use. The Department has the following reservations of fund balances:

Encumbrances — Represents future expenditures under purchase orders, contracts 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.

Other Specified Purposes — Represents certain assets, primarily cash of grants and contributions, that are legally restricted by outside parties for use for a specific purpose.

Q. Interfund and Intraentity Transactions

The Department has the following types of transactions among funds:

Interfund Transfers — Legally required transfers that are reported when incurred as transfer-in by the recipient fund and as transfer-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intraentity Transactions — Intraentity transactions are resource flows between the Department and its component unit and among component units of the Commonwealth. These resource flows and related outstanding balances are reported as if they were external transactions. However, resource flows between the Department and its agencies are classified as interfund transactions, as described above.

R. Other Postemployment Benefits

In addition to pension benefits, the Department and its component unit provide other postemployment benefits (OPEB) such as summer and Christmas bonus, and postemployment health care benefits for its retired employees in accordance with local law. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

The Christmas bonus paid to retired employees during the fiscal year ended June 30, 2009 was \$400 per retiree and these benefits were recorded as expenditures when paid in the governmental funds. Health care benefits are provided through insurance companies whose premiums are paid by the retiree with the Department and its component unit providing a matching share of not more than \$100 per month for each retiree.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Risk Management

The Department and its component unit carry commercial insurance to cover property and casualty, theft, tort claims and other losses for the Department and its component unit. Insurance policies are negotiated by the PR Treasury and costs are allocated among all the governmental units of the Commonwealth. Cost of insurance allocated to the Department and its component unit and reimbursed to the PR Treasury amounted to approximately \$615,425 and \$10,949, respectively, for the fiscal year ended June 30, 2009. The current insurance policies have not been cancelled or terminated.

For workmen compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth, provides workmen compensation insurance to cover all Department's and its component unit's employees. The Department's and its component unit workmen compensation insurance expenditures amounted to approximately \$3,403,400 and \$384,880, respectively, for the fiscal year ended June 30, 2009. In the past three years, the Department has not settled claims that exceed insurance coverage.

T. Reclassifications

Certain reclassifications have been made to the information presented in the separately issued financial statements of the Department's organizational component agencies and component unit to conform to the accounting classifications used by the Department in the basic financial statements.

U. Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

V. Future Adoption of Accounting Pronouncements

The GASB has issued the following governmental accounting standards that have effective date after June 30, 2009:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple- Employer Plans*, which is effective for periods beginning after June 15, 2011.

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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Future Adoption of Accounting Pronouncements (Continued)

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which is effective for periods beginning after June 15, 2009.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for financial statements for periods beginning after June 15, 2010.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is effective for periods beginning after June 15, 2012.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for periods beginning after December 15, 2011.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011.
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which is effective for periods beginning after June 15, 2011.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012.
- Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.

The impact of these statements on the Department's basic financial statements has not yet been determined. However, adoption of these statements is not expected to have a material impact on the Department's basic financial statements.

NOTE 2 — RESTATEMENTS

Subsequent to the issuance of the Department's basic financial statements for the year ended June 30, 2008, the Department's management determined that the Department's 2008 basic financial statements were misstated.

The Department's government-wide financial statements were misstated as a result of the following:

Governmental activities:

- Administrative costs of business-type activities from the Disability and Driver's insurance funds recorded as governmental activities.
- Unrecorded cash transactions in commercial bank account of the Work Opportunity Incentive Fund and governmental bank accounts of the Special Auxiliary Fund and Work Opportunity Incentive Fund.

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DEPARTMENT OF LABOR AND HUMAN RESOURCES**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 2 — RESTATEMENTS (CONTINUED)

Governmental activities (Continued):

- Unrecorded cash transactions in accounts held by PR Secretary of Treasury related to administrative costs of the Special Auxiliary Fund, the Veterans Unemployment Insurance Fund and the Work Opportunity Incentive Fund.
- Unrecorded cash transactions in accounts held by PR Secretary of Treasury related to administrative costs of the Special Auxiliary Fund, Veterans' Unemployment Insurance Fund and the Work Opportunity Incentive Fund.
- Interfund receivables from the Unemployment Insurance Fund not recorded in the Special Auxiliary Fund and the Work Opportunity Incentive Fund.
- Capital assets and related accumulated depreciation were overstated as assets did not meet the initial cost capitalization threshold.
- Building under capital lease, net of accumulated depreciation, incorrectly recorded.
- Overstatement of accounts payable in the Special Auxiliary Fund and understatement of accounts payable in the Work Opportunity Incentive Fund.
- Deferred revenues related to the federal unemployment Reed Act not recorded in the Work Opportunity Incentive Fund.
- Interfund interest payable from the Drivers' Insurance Fund not recorded in the Work Opportunity Incentive Fund.
- Understatement of compensated absences due to miscalculation.
- Accrual of employees' Christmas bonus was not recorded.
- Obligation under capital lease incorrectly recorded.
- Presentation as discretely presented component units of organizational component agencies instead of governmental funds.

Business-type activities:

- Administrative costs of business-type activities from the Disability and Driver's insurance funds recorded as governmental activities.
- Unrecorded cash transactions in commercial bank account in the Unemployment Insurance Fund and in governmental bank account in all enterprise funds.
- Unrecorded cash transactions in accounts held by PR Secretary of Treasury in the Disability and Driver's insurance funds.
- Cash reconciling items from prior years recorded twice in the Unemployment Insurance Fund.
- Understatement of contributions receivable in the Disability Insurance Fund and overstatement of contributions receivable in the Driver's Insurance Fund.
- Overstatement of other receivables in the Unemployment and Disability insurance funds.

**COMMONWEALTH OF PUERTO RICO
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**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 2 — RESTATEMENTS (CONTINUED)

Business-type activities (Continued):

- Intergovernmental receivable not recorded in the Unemployment Insurance Fund.
- Interfund interest receivable from the Work Opportunity Incentive Fund not recorded in the Drivers' Insurance Fund.
- Interfund balances overstated in the Unemployment Insurance Fund and the Disability Insurance Fund.
- Overstatement of restricted investments and related interest receivable in the Disability Insurance Fund.
- Unrecorded capital assets, net of related accumulated depreciation, in the Disability Insurance Fund.
- Overstatement of accounts payable in the Disability and Driver's insurance funds and of federal interest in the Unemployment Insurance Fund.
- Interfund payables to the Special Auxiliary Fund and the Work Opportunity Incentive Fund not recorded in the Unemployment Insurance Fund.
- Interfund balances not recorded in the Unemployment Insurance Fund and the Drivers' Insurance Fund.
- Intergovernmental payable not recorded in the Unemployment Insurance Fund and the Disability Insurance Fund.
- Deferred revenues not recorded in the Unemployment and Disability insurance funds.
- Accrual for compensated absences and employees' Christmas Bonus were not recorded in the Disability and Driver's insurance funds.
- Understatement of benefits payable in the Unemployment Insurance Fund and overstatement in the Drivers' Insurance Fund due to a miscalculation.

Accordingly, the net assets (deficit) of the governmental activities and business-type activities as of June 30, 2008, in the Statement of Activities, as previously reported, have been restated to reflect an increase (decrease) of **\$(66,817,151)** and **\$97,918,074**, respectively, which represent the correction of the errors described above.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 2 — RESTATEMENTS (CONTINUED)

A summary of the effects of the restatements in the Statement of Activities for the fiscal year 2008 is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
NET ASSETS (DEFICIT) - Beginning of the year, as previously reported	\$ (5,958,213)	\$ 518,369,926	\$ 512,411,713
ADJUSTMENTS:			
Administrative costs of business-type activities recorded as in governmental activities	(12,250,868)	12,250,868	-
Unrecorded cash transactions in commercial banks	368,545	121,107,218	121,475,763
Unrecorded cash transactions in governmental banks	(74,059,073)	(2,715,211)	(76,774,284)
Unrecorded cash transactions in accounts held by PR Secretary of Treasury	(1,475,329)	28,911,835	27,436,506
Cash reconciling items from prior years recorded twice	-	12,505,343	12,505,343
Understatement of contributions receivable, including interest	-	406,021	406,021
Overstatement of other receivables	-	(2,693,514)	(2,693,514)
Overstatement of investment interest receivable	-	(14,232)	(14,232)
Understatement of interfund receivables	15,921,870	584,804	16,506,674
Understatement of due from other governmental entities	-	5,407,389	5,407,389
Overstatement of restricted investments	-	(329,784)	(329,784)
Capital assets, net of related accumulated depreciation, incorrectly recorded	(4,722,973)	-	(4,722,973)
Unrecorded capital assets, net of related accumulated depreciation	-	37,912	37,912
Building under capital lease, net of accumulated depreciation, incorrectly recorded	(4,599,846)	-	(4,599,846)
Overstatement (understatement) of accounts payable	(9,194,394)	3,460,038	(5,734,356)
Overstatement of federal interest payable	-	614,586	614,586
Interfund payables not recorded	(124,078)	(16,382,596)	(16,506,674)
Intergovernmental payables not recorded	-	(365,847)	(365,847)
Deferred revenues not recorded	(3,457,808)	(2,408,892)	(5,866,700)
Compensated absences understated or not recorded	(510,570)	(1,669,226)	(2,179,796)
Employees' Christmas bonus not recorded	(1,676,931)	(225,943)	(1,902,874)
Understatement of benefits payable	-	(60,561,695)	(60,561,695)
Obligation under capital lease incorrectly recorded	2,172,081	-	2,172,081
Exclusion of governmental funds from organizational component agencies	26,792,223	-	26,792,223
Total adjustments	(66,817,151)	97,919,074	31,101,923
NET ASSETS (DEFICIT) - Beginning of the year, as restated	\$ (72,775,364)	\$ 616,289,000	\$ 543,513,636

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 2 — RESTATEMENTS (CONTINUED)

The Department's governmental funds financial statements were misstated as a result of the following:

- Administrative costs of the Disability Insurance Fund recorded as a major governmental fund instead of in the Disability Insurance Fund.
- Administrative costs of the Drivers' Insurance Fund recorded in other governmental funds instead of in the Drivers' Insurance Fund.
- Unrecorded cash transactions in commercial bank account of the Work Opportunity Incentive Fund and governmental bank accounts of the Special Auxiliary Fund and Work Opportunity Incentive Fund.
- Unrecorded cash transactions in accounts held by PR Secretary of Treasury related to administrative costs of the Special Auxiliary Fund, Veterans' Unemployment Insurance Fund and the Work Opportunity Incentive Fund.
- Interfund receivables from the Unemployment Insurance Fund not recorded in the Special Auxiliary Fund and the Work Opportunity Incentive Fund.
- Overstatement of accounts payable in the Special Auxiliary Fund and understatement of accounts payable the Work Opportunity Incentive Fund.
- Deferred revenues related to the federal unemployment Reed Act not recorded in the Work Opportunity Incentive Fund.
- Interfund interest payable from the Drivers' Insurance Fund not recorded in the Work Opportunity Incentive Fund.
- The Human Resources and Occupational Development Council was previously reported as a discretely presented component with and not as a governmental fund.
- The Vocational Rehabilitation Administration was previously reported as a discretely presented component unit and not as a governmental fund.

Accordingly, the fund balances (deficit) of the General Fund, Work Opportunity Incentive Fund, Human Resources and Occupational Development Council, Vocational Rehabilitation Administration and Other Governmental Funds as of June 30, 2008, in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit), as previously reported, have been restated to reflect an increase (decrease) of **\$16,708,647**, **\$(88,728,914)**, **\$43,984,231**, **\$(2,767,623)** and **\$(12,250,868)**, respectively, which represent the correction of the errors described above. A summary of the effects of the restatements in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) for the fiscal year 2008 is as follows:

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

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Work Opportunity Incentive Fund	Human Resources and Occupational Development Council	Vocational Rehabilitation Administration	Other Governmental Funds	Total Governmental Funds
	\$ 17,818,343	\$ (26,784,142)	\$ -	\$ -	\$ 12,250,868	\$ 3,285,069
FUND BALANCES (DEFICIT) - Beginning of the year, as previously reported						
ADJUSTMENTS:						
Administrative costs of enterprise funds recorded in governmental funds	-	-	-	-	(12,250,868)	(12,250,868)
Unrecorded cash transactions in commercial banks	-	368,545	-	-	-	368,545
Unrecorded cash transactions in governmental banks	(5,617,487)	(68,441,586)	-	-	-	(74,059,073)
Unrecorded cash transactions in accounts held by PR Secretary of Treasury	20,932,840	(22,408,169)	-	-	-	(1,475,329)
Interfund receivable not recorded	1,309,781	14,612,089	-	-	-	15,921,870
Overstatement (understatement) of accounts payable	83,513	(9,277,907)	-	-	-	(9,194,394)
Interfund payable not recorded	-	(124,078)	-	-	-	(124,078)
Deferred revenues not recorded	-	(3,457,808)	-	-	-	(3,457,808)
Exclusion of governmental funds from organizational component agencies	-	-	43,984,231	(2,767,623)	-	41,216,608
Total adjustments	16,708,647	(88,728,914)	43,984,231	(2,767,623)	(12,250,868)	(43,054,527)
FUND BALANCES (DEFICIT) - Beginning of the year, as restated	\$ 34,526,990	\$ (115,513,056)	\$ 43,984,231	\$ (2,767,623)	\$ -	\$ (39,769,458)

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 2 — RESTATEMENTS (CONTINUED)

The Department's enterprise funds financial statements were misstated as a result of the following:

- Administrative costs of the Disability Insurance Fund recorded as major governmental fund instead of in the Disability Insurance Fund.
- Administrative costs of the Drivers' Insurance Fund recorded in other governmental funds instead of in the Drivers' Insurance Fund.
- Unrecorded cash transactions in commercial bank account in the Unemployment Insurance Fund and in governmental bank account in all enterprise funds.
- Unrecorded cash transactions in accounts held by PR Secretary of Treasury in the Disability and Driver's insurance funds.
- Cash reconciling items from prior years recorded twice in the Unemployment Insurance Fund.
- Understatement of contributions receivable in the Disability Insurance Fund and overstatement of contributions receivable in the Driver's Insurance Fund.
- Overstatement of other receivables in the Unemployment and Disability insurance funds.
- Intergovernmental receivable not recorded in the Unemployment Insurance Fund
- Interfund interest receivable from the Work Opportunity Incentive Fund not recorded in the Drivers' Insurance Fund.
- Interfund balances overstated in the Unemployment Insurance Fund and the Disability Insurance Fund.
- Overstatement of restricted investments and related interest receivable in the Disability Insurance Fund.
- Unrecorded capital assets, net of related accumulated depreciation, in the Disability Insurance Fund.
- Overstatement of accounts payable in the Disability and Driver's insurance funds and of federal interest in the Unemployment Insurance Fund.
- Interfund payables to the Special Auxiliary Fund and the Work Opportunity Incentive Fund not recorded in the Unemployment Insurance Fund.
- Interfund balances not recorded in the Unemployment Insurance Fund and the Drivers' Insurance Fund.
- Intergovernmental payable not recorded in the Unemployment Insurance Fund and Disability Insurance Fund.
- Deferred revenues not recorded in the Unemployment and Disability insurance funds.
- Accrual for compensated absences and employees' Christmas Bonus were not recorded in the Disability and Driver's insurance funds.
- Understatement of benefits payable in the Unemployment Insurance Fund and overstatement in the Drivers' Insurance Fund due to a miscalculation.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 2 — RESTATEMENTS (CONTINUED)

The net assets of the Unemployment Insurance Fund, Disability Insurance Fund and Drivers' Insurance Fund as of June 30, 2008, in the Statement of Revenues, Expenses and Changes in Fund Net Assets, as previously reported, have been restated to reflect an increase of **\$64,112,712**, **\$33,544,474**, and **\$261,888**, respectively, which represent the correction of the errors described above. A summary of the effects of the restatements in the Statement of Revenues, Expenses and Changes in Fund Net Assets for the fiscal year 2008 is as follows:

	<u>Unemployment Insurance</u>	<u>Disability Insurance</u>	<u>Drivers' Insurance</u>	<u>Total Enterprise Funds</u>
NET ASSETS - Beginning of the year, as previously reported	\$ 419,486,087	\$ 62,576,640	\$ 36,307,199	\$ 518,369,926
ADJUSTMENTS:				
Administrative costs of enterprise funds recorded in governmental funds	-	11,015,017	1,235,851	12,250,868
Unrecorded cash transactions in commercial banks	121,107,218	-	-	121,107,218
Unrecorded cash transactions in governmental bank	3,552,911	(242,290)	(6,025,831)	(2,715,210)
Unrecorded cash transactions in accounts held by PR Secretary of Treasury	-	22,807,447	6,104,388	28,911,835
Cash reconciling items from prior years recorded twice	12,505,343	-	-	12,505,343
Understatement (overstatement) of contributions receivable, including interest	-	410,961	(4,941)	406,020
Overstatement of other receivables	(2,635,148)	(58,366)	-	(2,693,514)
Overstatement of investment interest receivable	-	(14,231)	-	(14,231)
(Overstatement) understatement of interfund receivable	535,307	(74,581)	124,078	584,804
Understatement of due from other governmental entities	5,407,389	-	-	5,407,389
Overstatement of restricted investments	-	(329,784)	-	(329,784)
Unrecorded net assets, net of related accumulated depreciation	-	37,912	-	37,912
Overstatement of accounts payable	-	3,431,992	28,045	3,460,037
Overstatement of federal interest payable	614,586	-	-	614,586
Interfund payable not recorded	(15,847,289)	-	(535,307)	(16,382,596)
Understatement of due to other governmental entities	(81,794)	(284,053)	-	(365,847)
Deferred revenues not recorded	(371,736)	(2,037,156)	-	(2,408,892)
Compensated absences not recorded	-	(979,207)	(690,019)	(1,669,226)
Employees' Christmas bonus not recorded	-	(139,187)	(86,756)	(225,943)
Overstatement (understatement) of benefits payable	(60,674,075)	-	112,380	(60,561,695)
Total adjustments	64,112,712	33,544,474	261,888	97,919,074
NET ASSETS - Beginning of the year, as restated	\$ 483,598,799	\$ 96,121,114	\$ 36,569,087	\$ 616,289,000

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 2 — RESTATEMENTS (CONTINUED)

The following table summarizes changes to net assets at the beginning of the year as previously reported in the statement of net assets by certain discretely presented component units. The changes resulted primarily from the presentation of the Council and the Administration as discretely presented component units instead of as Department's governmental funds as these agencies are not legally separate entities or component units of the Commonwealth.

NET ASSETS - Beginning of the year - as previously reported	<u>\$ 25,832,243</u>
Presentation as component unit instead of governmental funds from the following entities:	
Human Resources and Occupational Development Council	(42,153,528)
Vocational Rehabilitation Administration	<u>15,361,305</u>
NET DEFICIT - Beginning of the year - as restated	<u>\$ (959,980)</u>

NOTE 3 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, interest bearing accounts, certificates of deposits and bank investment contracts. The carrying amount of deposits of the Department at June 30, 2009 consists of the following:

	Carrying Amount			Depository Bank Balance	Amount Uninsured and Uncollateralized
	Unrestricted	Restricted	Total		
Commercial bank	\$ 435,468	\$ 1,768,505	\$ 2,203,973	\$ 1,976,315	\$ -
Governmental bank	26,172,105	-	26,172,105	41,624,300	41,624,300
US Treasury	-	479,094,055	479,094,055	479,094,055	-
Total	<u>\$ 26,607,573</u>	<u>\$ 480,862,560</u>	<u>\$ 507,470,133</u>	<u>\$ 522,694,670</u>	<u>\$ 41,624,300</u>

Custodial credit risk is the risk that in the event of bank failure, the Department's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts with commercial banks outside Puerto Rico.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 3 — CASH AND CASH EQUIVALENTS (CONTINUED)

The Department's bank balance in commercial banks was covered by federal depository insurance or by collateral held by Secretary of the PR Treasury in the Department's name. The amounts deposited in the GDB are uninsured and uncollateralized. Such deposits are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event of GDB's failure, the Department may not be able to recover these deposits. The deposits with the US Treasury from unemployment insurance taxes are uninsured and uncollateralized. The deposits with the US Treasury from unemployment insurance taxes in the UFT can only be invested in obligations of the US or obligations guaranteed by the US.

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

The Drivers' Insurance interest bearing account in the GDB is pledged as collateral to the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS) for amounts due under the early retirement program of July 2008.

Cash and cash equivalents in governmental bank - restricted in the Unemployment Insurance Fund currently includes balances of two special disbursement officer's (SDO) accounts: one for unemployment benefits payments and the other for work opportunity incentive payments. The GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments, provides that administrative costs related to the unemployment insurance should be included in the general fund unless legal provisions require it to be reported in another fund. The SDO cash balance that consistently with GASB 34 should have been transferred since June 30, 2002 to the Work Opportunity Incentive Fund (included as a governmental fund of the Department) has not been determined nor adjusted in the accompanying basic financial statements.

Cash and cash equivalents of the component unit at June 30, 2009 consist of demand deposits at GDB. The bank balance in the governmental bank amounts to **\$1,460,233**.

NOTE 4 — RESTRICTED INVESTMENTS

As required by law, the principal purpose of the Disability and Drivers' Insurance funds is to cover payments for benefits claimed. To comply with the obligations of such enterprise funds, aside from the insurance premiums collections, an adequate investment of the required reserves is necessary to ensure the solvency of these enterprise funds. Accordingly, the results from the investments are a critical element to achieve the objectives and obligations imposed by law.

The Department's investment policies for such enterprise funds establish limitations and other guidelines on amounts to be invested in the investment categories and by issuer/counterparty and on exposure by country. Such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the investment committee and the Secretary of the Department will determine, from time to time, other transactions that such enterprise funds may enter into.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 4 — RESTRICTED INVESTMENTS (CONTINUED)

Inherent rate risk — In accordance with its investment policy, the Disability Insurance Fund manages its exposure to declines in fair values by establishing a long-term maturity of the investment portfolio of more than five years.

Credit risk — The Department's investment policy for the Disability Insurance Fund is to limit its investments pool rating of obligations and equities, not guaranteed by the US or its agencies, to not less than AAA by the Standard and Poor's (S&P) or Aaa by the Moody's Investors Service (Moody's) and of corporate debt securities to the top three ratings by the S&P and Moody's.

Concentration of credit risk — The Department's investment policies for the Disability Insurance Fund does not allow for investment in debt securities in excess of 20% of the Department's enterprise funds fixed income investments and in small companies' equities in excess of 50% of the total equities investments.

Custodial credit risk — The risk that, in the event of the failure of the counterparty to the transaction, the Department's Disability Insurance Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009, securities investments were registered in the name of the Commonwealth and were held in the possession the Commonwealth's custodian bank.

Foreign currency risk — The Department's investment policy for the Disability Insurance Fund limits the investment in emerging countries to 50% of the total international equities.

All of the Department's investments of the Disability Insurance Fund in US Treasury securities and mortgage-backed securities guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the US government and are presented as AAA to A- in the credit risk tables.

The fair value by investment type, credit quality ratings and maturity of the restricted investments reported by the business-type activities and the enterprise funds of the Department at June 30, 2009 consist of the following:

	Fair Value	Investment Rating			
		AAA to A	BBB to BB	Not Rated	No Risk
Mortgage-backed securities	\$ 8,346,764	\$ 2,017,619	\$ -	\$ -	\$ 6,329,145
US government and agency securities	3,085,643	3,065,039	-	-	20,604
US equity securities	8,779,860	-	-	8,779,860	-
US corporate debt securities	5,799,160	4,441,761	1,357,399	-	-
Other	3,098,456	612,313	548,380	1,937,763	-
Total	\$ 29,109,883	\$ 10,136,732	\$ 1,905,779	\$ 10,717,623	\$ 6,349,749

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 4 — RESTRICTED INVESTMENTS (CONTINUED)

	Fair Value	Maturity in Years			
		Less than 1 Year	1 to 5 years	6 to 10 years	More than 10 Years
Mortgage-backed securities	\$ 8,346,764	\$ 566,794	\$ 1,095,195	\$ 205,036	\$ 6,479,739
US government and agency securities	3,085,643	-	2,989,344	20,604	75,695
US equity securities	8,779,860	8,779,860	-	-	-
US corporate debt securities	5,799,160	-	2,013,035	2,559,073	1,227,052
Other	3,098,456	1,937,763	398,147	762,546	-
Total	\$ 29,109,883	\$ 11,284,417	\$ 6,495,721	\$ 3,547,259	\$ 7,782,486

NOTE 5 — RECEIVABLES

Receivables in the Department's governmental funds include intergovernmental receivables from the federal government of approximately **\$222,992,500** and other miscellaneous. At June 30, 2009, amounts due from the US Department of Labor (USDOL) and US Equal Employment Opportunity Commission (USEEOC) amounted to approximately **\$216,983,900** and **\$125,800**, respectively.

Receivables in the Department's enterprise funds at June 30, 2009 include **\$69,435,304** of unemployment, disability, and drivers' insurance premium receivable, including insurance interest receivable as follows:

	Unemployment Insurance	Disability Insurance	Drivers' Insurance	Total
Insurance premiums	\$ 336,999,034	\$ 25,103,889	\$ 1,069,029	\$ 363,171,952
Accrued insurance interest	1,510,681	-	-	1,510,681
Subtotal	338,509,715	25,103,889	1,069,029	364,682,633
Less: Allowance for doubtful accounts	273,456,376	21,739,385	51,568	295,247,329
Insurance premiums and accrued interest, net	\$ 65,053,339	\$ 3,364,504	\$ 1,017,461	\$ 69,435,304

Insurance tax premiums are levied each quarter to employers registered under the State Unemployment Insurance, the Temporary Non-occupational Disability Insurance and the Driver's Social Security Insurance Programs. The State Unemployment Insurance has receivables from private employers, governmental entities of the Commonwealth, and municipalities of approximately **\$250,789,600**, **\$76,264,200**, and **\$11,455,900**, respectively.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 5 — RECEIVABLES (CONTINUED)

In addition, receivables in the Department's enterprise funds include intergovernmental receivables from the federal government of approximately \$2,446,000 and other miscellaneous. Federal contributions are received to reimburse the benefits paid mainly for extended unemployment benefits granted under the Emergency Unemployment Compensation and the Additional Unemployment Compensation programs and 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.

NOTE 6 — PAYABLES

Payables in the governmental funds include approximately \$172,055,700 of trade accounts due to suppliers for purchase of merchandise and services rendered at June 30, 2009. Also, excess of checks drawn over the bank balance and the PR Treasury cash balance amounting to approximately \$91,831,900 and \$39,864,800, respectively, are reported within accounts payable and accrued liabilities of the governmental activities and the governmental funds.

Payables in the business-type activities include approximately \$1,150,400 of trade accounts due to suppliers for purchase of merchandise and services rendered at June 30, 2009. The benefits payable of the business-type activities and the enterprise funds for the unemployment insurance program includes approximately \$3,167,100 for excess of checks drawn over the bank balance at June 30, 2009.

NOTE 7 — INTERFUND AND INTRAENTITY TRANSACTIONS

Interfund receivables and payables at June 30, 2009 consist of:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Drivers' Insurance	General Fund	\$ 10,593,821
Drivers' Insurance	Work Opportunity Incentive	15,254,930
General Fund	Work Opportunity Incentive	175,701
General Fund	Unemployment Insurance	1,516,161
General Fund	Disability Insurance	803,395
Work Opportunity Incentive	Unemployment Insurance	12,878,235
Work Opportunity Incentive	Disability Insurance	705
Other Governmental Funds	Unemployment Insurance	2,946,268
Unemployment Insurance	General Fund	1,608
Unemployment Insurance	Work Opportunity Incentive	2,469
Unemployment Insurance	Disability Insurance	3,458
		<u>\$ 44,176,751</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 7 — INTERFUND AND INTRAENTITY TRANSACTIONS (CONTINUED)

Transfers from (to) other funds for the year ended June 30, 2009 are as follows:

<u>Transferee Fund</u>	<u>Transferor Fund</u>	<u>Purpose</u>	<u>Amount</u>
Work Opportunity Incentive	Unemployment Insurance	Surplus cash for work incentives and administrative expenses payments	\$43,672,314
General Fund	Unemployment Insurance	Cash for administrative expenses payments	4,092,112
General Fund	Work Opportunity Incentive	Surplus cash for administrative expenses payments	6,786,880
General Fund	Disability Insurance	Surplus cash for administrative expenses payments	2,902,027
General Fund	Driver's Insurance	Surplus cash for administrative expenses payments	3,446,578
Work Opportunity Incentive	General Fund	Legislative donations for work incentive	5,500,000
Vocational Rehabilitation Administration	Work Opportunity Incentive	Donations for work incentive	3,850,000
Vocational Rehabilitation Administration	Human Resources and Occupational Development Council	Workforce Investment Act federal funds	750,000
General Fund	Other Governmental Funds	Indirect costs allocation	1,261,364
			<u>\$72,261,275</u>

The principal purpose of the interfund transfers was the unemployment insurance fund's distribution of surplus cash belonging to the work opportunity incentive fund and the general fund for the payment of work incentives and administrative expenses amounting to **\$47,764,426**, as required by law. The Council passes-through a significant portion of WIA federal funds to the REA and FEWTA, which are accounted for as operating transfers due to the intra-reporting entity relationship. Such transfers to REA and FEWTA during the year ended June 30, 2009 amounted to **\$4,438,009** and **\$183,004**, respectively. In addition, the Department received reimbursements from other governmental entities amounting to **\$530,611** during the year ended June 30, 2009.

Interfund receivables and payables represent pending settlements of the aforementioned transfers or transactions from current and prior years. Due from/to other governmental entities by the Department at June 30, 2009 consist of:

<u>Receivable Entity/Fund</u>	<u>Payable Entity/Fund</u>	<u>Amount</u>
Drivers' Insurance	State Insurance Fund Corporation	\$ 7,523
Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities	General Fund	5,053,447
Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities	Work Opportunity Incentive Fund	92,392
Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities	Disability Insurance	1,009,223
Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities	Drivers' Insurance	523,276
Municipality of Juana Diaz	Disability Insurance	40,000
Municipality of Yauco	Disability Insurance	37,526
Puerto Rico Aqueduct and Sewer Authority	Vocational Rehabilitation Administration	2,770
Puerto Rico Electric Power Authority	General Fund	244,109
Puerto Rico Electric Power Authority	Vocational Rehabilitation Administration	64,245
		<u>\$ 7,074,511</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 7 — INTERFUND AND INTRAENTITY TRANSACTIONS (CONTINUED)

Expenses in the Department's basic financial statements include \$39,879,711 in contributions made to other governmental entities as follows:

<u>Entity</u>	<u>Amount</u>
Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities	\$ 31,088,864
Public Buildings Authority	362,499
Puerto Rico Aqueduct and Sewer Authority	232,113
Puerto Rico Electric Power Authority	4,028,087
Puerto Rico System of Annuities and Pensions for Teachers	149,352
Puerto Rico Treasury Department	615,425
State Insurance Fund Corporation	3,403,371
	<u>\$ 39,879,711</u>

Discretely Presented Component Unit

Due from (to) other governmental entities from the component unit are as follows:

<u>Receivable Entity/Fund</u>	<u>Payable Entity/Fund</u>	<u>Amount</u>
Right to Employment Administration	Human Resources and Occupational Development Council	\$ 976,490
Right to Employment Administration	Puerto Rico Treasury Department	623,946
		<u>\$ 1,600,436</u>

Expenses in the component unit include \$4,549,943 in contributions made to other governmental entities as follows:

<u>Entity</u>	<u>Amount</u>
Employees' Retirement System of the Commonwealth of Puerto Rico and Instrumentalities	\$ 3,953,488
Puerto Rico Treasury Department	10,949
Puerto Rico Aqueduct and Sewer Authority	21,645
Puerto Rico Electric Power Authority	178,982
State Insurance Fund Corporation	384,880
	<u>\$ 4,549,943</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 8 — RESTRICTED ASSETS

Restricted assets included in the Department's basic financial statements as of June 30, 2009 consist of restricted cash, receivables and investments held for unemployment and disability insurance benefits payments in the business-type activities amounting to approximately **\$577,479,400**.

Liabilities payable from restricted assets of the Department included in the basic financial statements as of June 30, 2009 mainly consist of unemployment and disability insurance benefits payable in the business-type activities amounting to approximately **\$122,683,300**.

Restricted net assets of the Department included in the basic financial statements as of June 30, 2009 consist of net assets for payment of unemployment and disability insurance benefits in the business-type activities amounting to approximately **\$431,949,400**.

NOTE 9 — CAPITAL ASSETS

Capital assets activity of the Department for the fiscal year ended June 30, 2009 was as follows:

	Beginning Balance (As restated)	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets, being depreciated:				
Furniture and equipment	\$ 12,020,369	\$ 499,147	\$ -	\$ 12,519,516
Vehicles	1,164,697	34,778	-	1,199,475
Total capital assets, being depreciated	13,185,066	533,925	-	13,718,991
Less accumulated depreciation for:				
Furniture and equipment	9,005,363	635,178	-	9,640,541
Vehicles	628,521	99,690	-	728,211
Total accumulated depreciation	9,633,884	734,868	-	10,368,752
Governmental activities total capital assets, being depreciated, net	\$ 3,551,182	\$ (200,943)	\$ -	\$ 3,350,239
Business type activities:				
Capital Assets, being depreciated:				
Furniture and equipment	\$ 179,010	\$ -	\$ -	\$ 179,010
Less accumulated depreciation for:				
Furniture and equipment	141,098	21,664	-	162,762
Business-type activities total capital assets, being depreciated, net	\$ 37,912	\$ (21,664)	\$ -	\$ 16,248

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 9 — CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the functions/programs of the Department for the year ended June 30, 2009 as follows:

Governmental activities:	
General and administrative	\$ 489,560
Employment regulations	39,207
Occupational safety and health	42,437
Unemployment services	98,800
Work incentive	<u>64,864</u>
Total depreciation expense - governmental activities	<u><u>\$ 734,868</u></u>

The net book value of capital assets of the Department as of beginning of the year was decreased to properly record capital assets amounting to approximately **\$9,332,800**.

The Department follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The Department did not recognize any impairment loss during the fiscal year ended June 30, 2009.

Discretely Presented Component Unit

The activity in the capital assets of the discretely presented component unit for the fiscal year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, being depreciated:				
Furniture, equipment and vehicles	<u>\$ 1,953,629</u>	<u>\$ 540</u>	<u>\$ 61,445</u>	<u>\$ 1,892,724</u>
Less accumulated depreciation for:				
Furniture, equipment and vehicles	<u>1,625,102</u>	<u>47,152</u>	<u>61,445</u>	<u>1,610,809</u>
Total capital assets, being depreciated, net	<u><u>\$ 328,527</u></u>	<u><u>\$ (46,612)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 281,915</u></u>

Depreciation expense for the component unit was charged to the general and administrative function.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 10 – LONG-TERM LIABILITIES

Long-term liability activity of the Department for the fiscal year ended June 30, 2009 was as follows:

	Beginning Balance (As restated)	Other Net Increases (Decreases)	Ending Balance	Due within one year	Long-term portion
Governmental Activities:					
Compensated absences	\$ 34,880,157	\$ (4,570,655)	\$ 30,309,502	\$ 14,950,831	\$ 15,358,671
Christmas bonus	1,676,931	(154,755)	1,522,176	1,522,176	-
Due to other governmental entities	-	12,292,839	12,292,839	5,145,840	7,146,999
Total governmental activities	<u>36,557,088</u>	<u>7,567,429</u>	<u>44,124,517</u>	<u>21,618,847</u>	<u>22,505,670</u>
Business-type Activities:					
Compensated absences	1,669,226	341,721	2,010,947	1,000,978	1,009,969
Due to other governmental entities	-	1,532,499	1,532,499	641,511	890,988
Total business-type activities	<u>1,669,226</u>	<u>1,874,220</u>	<u>3,543,446</u>	<u>1,642,489</u>	<u>1,900,957</u>
Total	<u><u>\$ 38,226,314</u></u>	<u><u>\$ 9,441,649</u></u>	<u><u>\$ 47,667,963</u></u>	<u><u>\$ 23,261,336</u></u>	<u><u>\$ 24,406,627</u></u>

Compensated absences, Christmas bonus, and due to other governmental entities reflect other net increases (decreases) resulting from adjustments and changes to agree these obligations to their new estimated balances at June 30, 2009.

Compensated Absences

Long-term debt includes approximately **\$32,320,400** of accrued vacation and sick leave benefits at June 30, 2009. The total liability of compensated absences recorded as governmental and business-type activities amounted to approximately **\$30,309,500** and **\$2,010,900**, respectively.

Christmas Bonus

Long-term debt includes approximately **\$1,522,200** of accrued Christmas bonus at June 30, 2009 recorded as governmental activities. The bonus for business-type activities amounted to approximately **\$219,500**, which was recorded as part of accounts payable and accrued expenses in the enterprise funds' financial statements.

Due to Other Governmental Entities

Long-term debt includes approximately **\$13,825,300** of accrued pension plan contributions at June 30, 2009 related to the Department's early retirement program of July 2008. The total liability of unpaid contributions recorded as due to other governmental entities in the governmental activities and the business-type activities amounted to approximately **\$12,292,800** and **\$1,532,500**, respectively.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

NOTE 10 – LONG-TERM LIABILITIES (CONTINUED)

The remaining balance is payable in three installments on each July 31 through 2012 as follows:

Year Ending June 30,	Amount
2010	\$ 5,787,351
2011	4,662,032
2012	<u>3,375,955</u>
Total future payments	<u><u>\$ 13,825,338</u></u>

Discretely Presented Component Unit

Long term liability activity of the discretely presented component unit for the fiscal year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Other Net Increases (Decreases)</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Long-term portion</u>
Governmental Activities:					
Compensated absences	\$ 2,961,668	\$ 9,940	\$ 2,971,608	\$ -	\$ 2,971,608
Due to Employees' Retirement System	<u>509,912</u>	<u>(254,956)</u>	<u>254,956</u>	<u>254,956</u>	<u>-</u>
Total component unit	<u><u>\$ 3,471,580</u></u>	<u><u>\$ (245,016)</u></u>	<u><u>\$ 3,226,564</u></u>	<u><u>\$ 254,956</u></u>	<u><u>\$ 2,971,608</u></u>

NOTE 11 — RETIREMENT SYSTEMS

All employees of the Department and its component unit are eligible to and participate in two contributory pension plans (collectively known as the Retirement Systems) sponsored by the Commonwealth of Puerto Rico as follows:

- Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS System)
- Puerto Rico System of Annuities and Pensions for Teachers (TRS System), only for teachers that work in the Vocational Rehabilitation Administration and the Future Entrepreneurs and Workers Training Administration.

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 Retirement Systems issue publicly available financial reports that includes its financial statements and required supplementary information. These reports can be obtained by written request to the corresponding retirement system administrator at the addresses detailed below.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 11 — RETIREMENT SYSTEM (CONTINUED)

The Department and its component unit follow the provisions of GASB 27, Accounting for Pensions by State and Local Governmental Employers, which requires employers that participate in cost-sharing multi-employer defined-benefit pension plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

ERS Defined Benefit Pension Plan

The ERS is a cost-sharing multi-employer defined benefit plan sponsored by the Commonwealth under the terms of Act 447 of 1951, as amended, reported as a component unit of the Commonwealth. Participation is optional for employees hired before January 1, 2000 and under 55 years of age at the date of employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The ERS defined benefit pension plan 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. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age, will receive up to a maximum of 75% of the average salary, as defined.

Act 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

ERS Defined Contribution Pension Plan

Act 335 of September 24, 1999, an amendment to Act 447 of May 15, 1951, which created the ERS, 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, may elect either to stay in the defined benefit plan or irrevocably transfer to the new program. Employees joining the government on or after January 1, 2000 will only be allowed to become members of System 2000.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 11 — RETIREMENT SYSTEM (CONTINUED)

ERS Defined Contribution Pension Plan (Continued)

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the ERS, 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 ERS'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 or after January 1, 2000.

Total Department's employee contributions to the Retirement Systems during the fiscal year ended June 30, 2009 amounted to approximately **\$11,884,800**. The Department's contributions during the fiscal year ended June 30, 2009 amounted to approximately **\$13,404,800**. These amounts represented 100% of the Department's required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the ERS itself.

Early Retirement Program

The Department implemented an early retirement program for its employees under Act 136 dated July 29, 2008. The incremental costs of the early retirement program amounted to approximately **\$24,831,000**, which has been presented as a special item in the accompanying Statement of Activities; Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) – Governmental Funds; and Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds. The Department already made one payment of **\$11,005,702** and would reimburse the remaining balance on annuities and other benefits paid by the ERS in three installments on each July 31 through 2012.

Additional information on the ERS is provided in its financial statements for the fiscal year ended June 30, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 11 — RETIREMENT SYSTEM (CONTINUED)

TRS System

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. Licensed teachers working in the Department and its component unit may participate in the TRS System as long as the required employer and employee contributions are satisfied.

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

Effective January 27, 2000, participant contributions were increased to 9%, as provided by Act No. 45 of 2000. The Department 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.

Total Department's employee contributions to the TRS System during the fiscal year ended June 30, 2009 amounted to approximately **\$159,900**. The Department's contributions during the fiscal years ended June 30, 2009 amounted to approximately **\$149,300**. These amounts represented 100% of the required contribution for the corresponding year.

Additional information on the TRS System is provided in its financial statements for the fiscal year ended June 30, 2008, a copy of which can be obtained from the Puerto Rico System of Annuities and Pensions for Teachers, PO Box 191879, San Juan, PR 00919-1879.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

For fiscal years 2003 to 2007, the Commonwealth granted additional benefits to the ERS's retirees through the approval of various special laws. Those special laws granted increases to retired employees of the Department and its component unit in the pensions and other benefits such as medicines bonus, Christmas bonus and death benefits. As of June 30, 2009, these increases are being funded through special appropriations from the Commonwealth for the amount corresponding to the Department and the Administration and by contributions from the Council and the component unit. Costs related to these post-employment benefits for the Council and the component unit amounted to **\$12,230** and **\$454,207**, respectively for the year ended June 30, 2009. These benefits are recorded as expenditures in the governmental funds when paid.

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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NOTE 13 – COMMITMENTS

The Department has several non-cancelable operating leases, including those with the Public Buildings Authority of the Commonwealth of Puerto Rico (PBA), 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. Annual rental payments to the PBA are determined based on the debt service requirements of the related debt to be paid with the rental proceeds, plus the facilities operating costs allocation. For the year ended June 30, 2009, rent expenditures amounted to approximately **\$14,365,800** under such operating leases.

The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Amount
2010	\$ 7,392,996
2011	4,193,439
2012	1,367,601
2013	378,848
2014	351,648
2015-2019	1,758,243
2020-2022	<u>1,054,946</u>
Total future minimum lease payments	<u>\$ 16,497,721</u>

NOTE 14— CONTINGENCIES

Litigations

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 the probable outcome of these cases will not have a material impact on the accompanying basic financial statements. The Commonwealth of Puerto Rico Act 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, 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. However, the Secretary of the PR Treasury has discretion of requesting reimbursement of the funds expended for these purposes from public corporations, governmental institutions and municipalities of the defendants.

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

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 14— CONTINGENCIES (CONTINUED)

Federal Awards

The Department participates in federal programs received from the USDOL, USDE and USEEOC to promote the working class welfare and to finance the administration costs of its various federal programs. 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 to the Department's basic financial statements.

NOTE 15— SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2009 have been evaluated is April 20, 2012, which is the date the basic financial statements were available to be issued.

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

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts in Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:				
Legislative appropriations	\$ 14,004,000	\$ 14,556,300	\$ 14,556,300	\$ -
Total revenues	<u>14,004,000</u>	<u>14,556,300</u>	<u>14,556,300</u>	<u>-</u>
EXPENDITURES:				
General and administrative	9,663,000	10,215,300	10,063,292	152,008
Rehabilitation services	4,341,000	4,341,000	4,397,241	(56,241)
Total expenditures	<u>14,004,000</u>	<u>14,556,300</u>	<u>14,460,533</u>	<u>95,767</u>
EXCESS REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,767</u>	<u>\$ 95,767</u>

The notes to this budgetary comparison schedule are an integral part of this statement.

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

**NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Department's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents fund, function and department appropriations submitted by the Secretary of Labor to the Puerto Rico Office of Management and Budget (PR OMB). Such budget is incorporated by the PROMB into the Commonwealth consolidated annual budget document, which is submitted by the governor to the Legislature, and then approved by the Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Legislature. Transfers of certain appropriations within the budget require the approval of the PR OMB and after approval accounted for by the PR Department of Treasury. Formal budget integration is employed as a management control device during the fiscal year for the general fund. As stated in the Constitution of the Commonwealth, the budgeted expenditures should be balanced with estimated revenues. The Department prepares its annual budget including the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2009 was **\$14,004,000**. The legislature also made additional special budgetary appropriations to the general fund throughout the year, which amounted to approximately **\$552,300**.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at 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. The Commonwealth of Puerto Rico Accounting Act establishes that unreserved and unexpended funds at the end of the fiscal year from the Department should be reverted to the Secretary of the PR Treasury pursuant to Act 230.

Budget GAAP/Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with US GAAP, a reconciliation of differences in the excess revenues over expenditures for the fiscal year ended June 30, 2009 is presented below:

Excess revenues over expenditures in the Budgetary Comparison Schedule - General Fund	\$ 95,767
Plus prior year encumbrances recorded as expenditures during current year under the GAAP basis	(107,276)
Less current year encumbrances not recorded as expenditures under the modified accrual basis	<u>20,879</u>
Excess revenues over expenditures in the Statement of Revenues, Expenditures and Fund Balance - General Fund	<u>\$ 9,370</u>

SINGLE AUDIT SECTION

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>US Department of Agriculture</u>			
Passed-through PR Department of Education			
Child and Adult Care Food Program	10.558	CC-038	\$ 12,885
<u>US Department of Labor</u>			
Direct Programs			
Labor Force Statistics	17.002		663,828
Compensation and Working Conditions	17.005		78,196
Unemployment Insurance	17.225		248,510,166
Trade Adjustment Assistance	17.245		25,536
Work Opportunity Tax Credit Program (WOTC)	17.271		62,510
Temporary Labor Certification for Foreign Workers	17.273		31,881
Occupational Safety and Health State Program	17.503		2,375,988
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		7,959,461
Disabled Veterans' Outreach Program (DVOP)	17.801		166,587
Local Veterans' Employment Representative Program	17.804		256,655
Total Employment Services Cluster			8,382,703
Subtotal US Department of Labor			260,130,808
<u>Equal Employment Opportunity Commission</u>			
Direct Program			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002		535,034
<u>US Department of Homeland Security</u>			
Direct Program			
Disaster Unemployment Assistance	97.034		5,586
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		91,158
Subtotal US Department of Homeland Security			96,744
Total Expenditures of Federal Awards			\$ 260,775,471

The accompanying notes are an integral part of this schedule.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 – 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. This schedule excludes the other agencies, which are organizational components of the Department, known as the Human Resources and Occupational Development Council and the Vocational Rehabilitation Administration, presented as governmental funds of the Department.

State or local governments redistributions of federal awards to the Department known as "pass-through awards", should be treated by the Department as though they were received directly from the federal government. OMB Circular A-133 requires this schedule to include the name of the pass-through entity and the identifying number assigned to the pass-through entity for the federal awards received.

NOTE 2 - 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 in the United States of America.
- c) Expenditures are recognized in the accounting period in which the liability is incurred, is measurable or when actually paid, whichever occurs first.

NOTE 3 - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) numbers included in this Schedule are determined based of the program's name and the contract award year in the CFDA of the US Office of Management and Budget. The CFDA number is a program identification number, whose first to digits identify the federal agency or department that administers the program.

A cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs, because they are closely related programs that share common requirements. The Schedule of Expenditures of Federal Awards includes the following cluster:

<u>Cluster</u>	<u>Federal Program</u>	<u>Federal CFDA Number</u>
Employment Service	Employment Service/ Wagner-Peyser Funded Activities	17.207
	Disabled Veterans' Outreach Program (DVOP)	17.801
	Local Veterans' Employment Representative Program	17.804

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

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NOTE 4 - MAJOR FEDERAL PROGRAMS

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

NOTE 5 - RECONCILIATION TO THE FUND FINANCIAL STATEMENTS

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

Expenditures reported in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds	\$429,968,100
Expenses reported in the Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Funds	<u>523,091,010</u>
Total	953,059,110
Less:	
General Fund	(47,143,550)
Work Opportunity Incentive Fund	(49,051,879)
Human Resources and Occupational Development Council	(207,312,212)
Vocational Rehabilitation Administration	(94,183,903)
Indirect Costs Allocation	1,261,364
Unemployment Insurance	(270,517,858)
Disability Insurance	(21,062,705)
Divers Insurance	<u>(4,272,896)</u>
Amount Reported in the Schedule of Expenditures of Federal Awards	<u><u>\$260,775,471</u></u>

ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE
SINGLE AUDIT ACT

VALDES, GARCIA , MARIN & MARTINEZ, LLP

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

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

We have audited the financial statements of the governmental activities, business type activities, the discretely presented component unit, 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, 2009, which collectively comprise the Department's basic financial statements and have issued our report thereon dated April 20, 2012. Our report on the Department's financial statement was qualified at governmental activities level because of inadequacies in the Department's accounting records and reconciliation procedures for recording its financial transactions of the General Fund, Work Opportunity Incentive Fund and other Governmental Funds in the following areas: cash, accounts payable, fund balance reserved for encumbrances and the capital assets and for the omission of the financial data of FEWTA in the Department's financial statements. Also, our report was qualified at business-type activities level because of inadequacies in the Department's accounting records for the cash overdraft in governmental bank included in insurance benefits payable of the Unemployment Insurance Fund. Except as discussed in the preceding sentences, 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. Other auditors audited the financial statements of the Vocational Rehabilitation Administration and the Human Resources and Occupational Development Council, which are organizational components of the Department, as described in our report or the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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. Accordingly, we do not express 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 as items 2009-II-1 through 2009-II-6 to be significant deficiencies in internal control over financial reporting.

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.

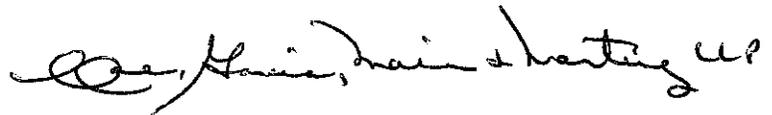
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 2009-II-1, 2009-II-2, 2009-II-4 and 2009-II-5 to be material weaknesses.

Compliance and other matters

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-II-1.

The Department's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

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



San Juan, Puerto Rico
April 20, 2012

Stamp 2662610 was affixed
to the original.

VALDES, GARCIA , MARIN & MARTINEZ, LLP

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

To the Honorable Secretary and Management of the
Commonwealth of Puerto Rico
Department of Labor and Human Resources
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, 2009. The Department's major federal programs are identified in the summary of audit 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.

The Department's financial statements include the operations of the Vocational Rehabilitation Administration and the Human Resources and Occupational Development Council, which are organizational components of the Department, and spent approximately \$77,344,000 and \$212,510,000 in federal awards, respectively, which are not included in the schedule for the year ended June 30, 2009. Our audit described below, did not include the operations of the Vocational Rehabilitation Administration and the Human Resources and Occupational Development Council because these organizational components engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 2009-III-8 and 2009-III-9 in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with requirements regarding suspension and debarment and property and equipment management that are applicable to Unemployment Insurance, and Employment Service/Wagner-Peyser Funded Activities programs. In addition, as described in item 2009-III-7 the Department did not comply with requirements regarding reporting that is applicable to the Employment Service Cluster. 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, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-III-1 through 2009-III-6, 2009-III-10, and 2009-III-11.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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.

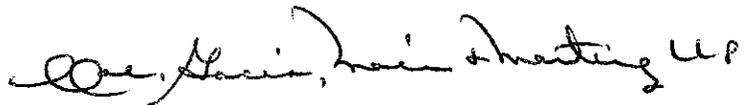
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed 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 a 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 2009-III-1 through 2009-III-11 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 2009-III-1, 2009-III-7, 2009-III-8, and 2009-III-9 to be material weaknesses.

The Department's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Department's response and, accordingly, we express no opinion on it.

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



San Juan, Puerto Rico
April 20, 2012

Stamp 2662611 was affixed
to the original.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section I - Summary of Audit Results

A. Summary of audit results:

Part I - Financial Statement

1. Type of auditor's report issued: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

Internal control over financial reporting:

2. Significant deficiencies identified? Yes No
 3. Significant deficiencies reported as material weaknesses? Yes None reported
 4. Noncompliance material to financial statement noted? Yes No

Part II - Federal Awards

Internal control over major programs:

1. Significant deficiencies identified? Yes No
 2. Significant deficiencies reported as material weaknesses? Yes None reported
 3. Type of auditors' report on compliance for major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
 4. Audit findings disclosed that are required to be reported in accordance with Section 510 (a) of circular A-133. Yes No

5. Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.225	Unemployment Insurance Employment Service Cluster:
17.207	Employment Service/Wagner-Peyser Funded Activities
17.801	Disable Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program

6. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
 7. Auditee qualified as low-risk? Yes No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-1
Requirement	Accounting System
Statement of Condition	<p>During the audit of the Department's financial statements for the fiscal year ended on June 30, 2009, we noted the following deficiencies in the accounting system:</p> <ol style="list-style-type: none">1. The accounting records are primarily designed for the recording of revenues, expenditures, and other limited transactions in a cash basis and not to provide the necessary information needed for the preparation of financial statements in accordance with generally accepted accounting principles. The conversion of the financial information of the accounting system obtained from a modified accrual to a full accrual-basis requires a significant effort of the Department and the recording of several adjusting entries in order to account for unrecorded transactions such as accrual of receivables, accounts payable, accrual of benefits, compensated absences, capital assets transactions, or to correct transactions accounted for in the incorrect accounting period.2. No adequate and timely recording procedures were performed of general ledger accounts. The audit adjustments from prior years were not recorded on time in the Department's accounting system.3. There are no established procedures for the reconciliation between the accounting transactions recorded in Munis Live, the accounting system used by the Department, with the transactions recorded in PRIFAS, the Central Accounting System of the Commonwealth of Puerto Rico. The Department hired external consultants to perform the reconciliation between both systems. For most of the governmental funds, reconciliation of the balance sheet accounts was not fully completed.4. The following funds were not recorded in Munis Live as of June 30, 2009:<ol style="list-style-type: none">a. Unemployment Insuranceb. Driver's Insurancec. Express Program of Government Employeesd. "Ley 9 del 2009 – Estímulo Económico Criollo"

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference

2009-II-1 (Continued)

The financial transactions of these funds were recorded in Munis Live during the process of reconciliation performed by the external consultants.

5. Interfund transactions have not been properly recorded and reconciled in the accounting records during the year. They required material adjustment at year-end.
6. The Department does not record properly all returned checks as a receivable balance. Instead, these are automatically adjusted to revenue accounts.
7. The accounting function and process were not centralized in the Department of Finance. Various programs do not report to this Department. As a result, the Department of Finance does not know and does not control the accounting functions of various Departments' programs.
8. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.
9. The Department does not have an accounting manual to be followed on significant areas as collections, disbursements, accounts receivable, accounts payable, capital assets, purchases, and monthly and annual closings.

Please, refer to findings 2009-II-2, 2009-II-3, 2009-II-4 and 2009-II-5 for deficiencies in cash, accounts receivable, capital assets and accounts payable, respectively.

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.

Circular A-102, "Common Rule", requires recipients of federal funds to establish and maintain accounting systems and financial records to accurately account for all grants and sub-grants cash, real and personal property and other assets.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-1 (Continued)
	Act Number 230 of July 23, 1974, Puerto Rico Government Accounting Law, as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.
Cause of condition	The lack of adequate accounting procedures for reconciliation and analysis of the financial transactions recorded during the year, lack of supervision to the Department of Finance personnel, lack of governmental accounting knowledge of the personnel in charge of the Department's accounting and lack of proper training to them.
Effect of condition	Not preparing and or submitting monthly reconciled financial statements to management, does not allow performing the following procedures: <ul style="list-style-type: none">a. Detection of irregularities or instances of fraud on a timely basis.b. Preparation of timely comparison of actual expenditures to budget.c. Discussion of reports with corresponding personnel and receiving explanations for significant variations from budget.d. Compliance with corresponding financial reporting required by the state and federal regulations.
Recommendation	The Department should evaluate the policies and procedures used by the Department of Finance in order to determine 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: <ul style="list-style-type: none">a. Restructuring of the accounting recording process in order to obtain the information needed to prepare the financial statements in accordance with GAAP.b. Maintaining proper evidence of prior years audit adjustments and related posting in the accounting system in order to ensure proper reconciliation of beginning fund balance accounts.c. Provide and/or increase trainings to the accounting personnel related to accounting functions and generally accepted accounting principles of governmental entities.d. Establish procedures to reconcile periodically the accounting transactions between Munis Live and PRIFAS.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-1 (Continued)
	<ul style="list-style-type: none">e. Establish procedures to record returned checks as accounts receivables, instead of as a reduction of revenues, and to instruct responsible personnel.f. Include in the responsibilities of the Director of Finance the supervision of the three proprietary funds (Unemployment Insurance, Disability Insurance and Drivers' Insurance).g. All Departments' fund transactions shall be accounted for in Munis Live system.h. Increase supervision over the tasks performed by the accounting personnel.i. Develop an accounting manual. Written procedures, instructions, and the assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference 2009-II-2

Requirement Cash Accounts and Reconciliation Procedures

Statement of Condition During our audit procedures in the cash area we found the following deficiencies:

1. Balances of the bank accounts held by the Commonwealth of Puerto Rico Treasury Department in the governmental funds were not reconciled with PRIFAS and the ending balances did not agree with the accounting records kept by the Department. There are no established procedures for the reconciliation of these accounts.
2. The Department maintains the responsibility over the preparation of the bank reconciliations for the General Fund, Work Opportunity Incentive Fund, Special Revenue Fund and the Proprietary Funds bank accounts. After our examination of the bank reconciliations prepared by the accounting personnel of the Department, we noted that the accounting records and the general ledger had unreconciled differences in the cash accounts when compared with bank reconciliations as follows:

<u>Bank Account No.</u>	<u>Accounts Name</u>	<u>Difference</u>
467-1001-8	Special Disbursement Officer - UI	\$ 1,407,509.69
030-382068	Liquidation	(46,647.04)
367-1002-8	Special Disbursement Officer	(5,762,274.74)
256-0003-2	Special Auxiliary Fund	(3,033,219.06)
256-0006-8	Work Opport. Incentive Fund (FOT)	(1,056,273.75)
256-0005-9	Adm. Bureau Employment Security	(84,741,923.45)

3. We observed that five bank reconciliations for the month ended June 30, 2009 did not indicate the date they were prepared as follows:
 - a. Account Number 256-0005-9 - Administration of the Bureau of Employment Security
 - b. Account Number 256-0006-8 - Promotion of Employment (FOT)
 - c. Account Number 0006215483 - Conference on Occupational Safety and Health
 - d. Account Number 367-1201-7 - Special Disbursement Officer - Disability Insurance
 - e. Account Number 205-55091 - Unemployment Trust Fund

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference

2009-II-2 (Continued)

4. The bank reconciliation for the month ended June 30, 2009 of the Administration of the Bureau of Employment Security (account number 256-0005-9) was not signed by the person who prepared it.
5. The following bank reconciliations as of June 30, 2009 were not prepared in a reasonable period after receipt of the bank statement:

<u>Account Number</u>	<u>Date of preparation</u>
034-832645	2/9/2010
039-088790	7/6/2011
367-1002-8	12/29/2009
200-30805	10/30/2009
030-382068	6/23/2011
467-1001-8	1/26/2012
200-30904	10/28/2009

6. The bank reconciliation as of June 30, 2009 of account number 034-832645 (Claim Fund) did not have a detail of outstanding checks amounting to \$51,291.52.
7. The bank reconciliation as of June 30, 2009 of the Administration of the Bureau of Employment Security (account number 256-0005-9) included deposits in transit over six months, and the bank reconciliation of the Special Disbursement Officer-Payroll (account number 367-1701-2), over ten years.
8. The following bank reconciliation as of June 30, 2009 did not have a detail of deposits in transit and have outstanding checks over one year:

<u>Account</u>	<u>Amount Deposit in Transit</u>
Special Disbursement Officer Payroll (Acct. No. 367-1701-2)	\$122,367.59
Special Disbursement Officer- UI Benefits Payments Unit (Acct. No. 467-1001-8)	\$283,071.09

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference 2009-II-2 (Continued)

In addition, the bank reconciliation of the Special Disbursement Officer- UI Benefits Payment Unit did not have a detail of a book adjustment amounting to \$2,510,033.33.

9. There are three bank accounts that were not recorded in the Munis Live system as of June 30, 2009:

<u>Account No.</u>	<u>Account's Name</u>	<u>Balance per Rec</u>
367-1701-2	Special Disbursement Officer Payroll	\$60,774.40
039-088790	Child Care	\$745.26
0006215483	Conference on Occupational Safety and Health	\$108,866.12

10. There is a difference of \$77,399.01 between the outstanding checks recorded in the face of the bank reconciliation as of June 30, 2009 of account number 367-1002-8 (Special Disbursement Officer) and the detail of the outstanding checks provided for our examination as follows:

Outstanding checks as per:

<u>Bank reconciliation</u>	<u>Detail</u>	<u>Difference</u>
\$974,640.52	\$897,241.51	\$77,399.01

Also, this bank reconciliation has reconciling items since 1999.

11. The Department does not maintain a reconciliation of the depository account of Disability Insurance and Driver's Insurance Funds (account number 022-053778). This account is under the custody of the Commonwealth of Puerto Rico Treasury Department.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference 2009-II-2 (Continued)

Criteria Regulation Number 9, Regulation of Basic Rules for the Special Disbursement Officers appointed by the Secretary of the Treasury, Article XI (Bank Reconciliations) states the following:

1. If there are differences between the information provided by the bank and the records of the Special Disbursement Officer it shall be clarified before giving the reconciliation for the approval of the Head of the Agency or his Authorized Representative. The Head of the Agency or his Authorized Representative should be informed if the above situation occurs.
2. The agencies will be responsible for immediately solving any dispute arising in the bank reconciliation. Under no circumstances should any dispute arising in that reconciliation remain unresolved for a period longer than 10 days. If the difference is not resolved during that period, the Treasury Department will not approve any funding request until the differences are clarified.
3. After the reconciliation is made, the person in charge of preparing it should certify it as correct and seek the approval of the Head of the Agency or his Authorized Representative.
4. The Special Disbursement Officer's reconciliation must be prepared within three days after receipt of the bank statement or if more time is needed, an extension of five more days could be provided by the Head of the Agency.

Circular Letter No. 1300-47-08 "Instructions for the Special Disbursement Officers related to Deposits in Transit and Outstanding Checks in the bank reconciliation" states that:

1. Deposits in Transit - The person responsible for preparing the reconciliation of bank accounts shall segregate and total the deposits by fund number. Under no circumstances, requests for funds that are disbursed by electronic transfer must be considered as deposits in transit.
2. Outstanding Checks – The person responsible for preparing the bank reconciliations shall segregate and aggregate them by fund number. In cases where a check affects two funds the amount of each fund should be detailed.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-2 (Continued)
	Regulation Number 19, Canceled Checks, Article 4 (Cancellation of Checks with More than Six Months Issued), states that checks for state and federal funds issued through RHUM, PRIFAS or PRITAS system that meet six months of issued and outstanding will be canceled automatically and the amount thereof credited to their account of origin.
Cause of condition	Lack of adequate procedures and supervision of the tasks performed by the accounting personnel in charge of preparing the reconciliations.
Effect of condition	Deficiencies previously mentioned do not permit adequate control over cash receipts and disbursements, the timely detection of irregularities and to properly report the cash balance in the financial statements.
Recommendation	We recommend to management the following: <ol style="list-style-type: none">1. To establish procedures for monthly reconciliation of the accounting transactions of all cash accounts held by the Commonwealth of Puerto Rico Treasury Department. Implementation of this policy would allow management to take appropriate action on a timely basis to correct discrepancies that might arise due to bookkeeping errors, bank errors or misappropriation or misuse of funds as well provide an independent verification of the receipt and disbursement functions.2. Differences in the bank reconciliation should be resolved in a reasonable period and all necessary adjustments should be posted to the general ledger.3. All bank accounts should be reconciled immediately upon receipt of the bank statement and should be reviewed by a responsible official. This review should be evidenced by the reviewer's initials and include the following procedures:<ol style="list-style-type: none">a. The balance per bank agrees with the reconciliation.b. The reconciled balance agrees with the general ledger.c. Review the reconciliation for unusual items.d. The details of deposits in transit and outstanding checks are included in the bank reconciliation.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference

2009-II-2 (Continued)

- e. Outstanding checks for more than six months of issued should be adjusted in the bank reconciliation.
 - f. Compare the reconciliation to the prior period for items outstanding not cleared during the current period.
4. To record in the accounting system the transactions of the following accounts:
- a. Account Number 367-1701-2 – Special Disbursement Officer-Payroll
 - b. Account Number 039-088790 – Child Care
 - c. Account Number 0006215483 – Conference on Occupational Safety and Health
- Also, inactive accounts should be closed.
5. Official collectors from Temporary Non-occupational Disability Insurance and Drivers Insurance Programs should have a separate bank account for its collections.
6. Management should consider the consolidation of cash accounts whenever 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 cost

None

Auditee Response

See Grantee's Corrective Action Plan

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-3
Requirement	Financial Reporting: Subsidiaries of Accounts Receivable – Proprietary Funds
Statement of Condition	<p>During our audit procedures over the accounts receivable area we noted the following deficiencies:</p> <ol style="list-style-type: none">1. No aging of accounts receivable exists for the following accounts:<ol style="list-style-type: none">a. Accounts Receivable – Others (Disability Insurance Fund)b. Accounts Receivable – Public Corporations (Disability Insurance Fund)c. Accounts Receivable – Others (Driver's Insurance Fund)d. Accounts Receivable – Public Corporations (Driver's Insurance Fund)e. Accounts Receivable – Contributions (Driver's Insurance Fund) <p>The accounting personnel gave us a detail in Excel of the accounts mentioned above instead of an aging of accounts receivable, except for the Accounts Receivable - Contributions, for which the accounting personnel uses subsequent collections detail to establish the balance of this account.</p> <ol style="list-style-type: none">2. Accounts Receivable Aging of Contribution Receivable from Disability Insurance Fund and Unemployment Insurance Fund is not accurate. It has old balances and the Department uses subsequent collections details to establish the balance of accounts receivable. The Department uses a service organization to process the aging of accounts receivable and other services.3. The Department does not have an adequate methodology to record, review, and adjust the provision for bad debts.
Criteria	Accounting Manual for the Drivers' Insurance Fund, Section 2.4.1, General Ledger Accounts, states that contribution receivable should be detailed in an Accounts Receivable Subsidiary Ledger.

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-3 (Continued)
	<p>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.</p> <p>Moreover, Act Number 230 of July 23, 1974, Puerto Rico Government Accounting Law, as amended, stipulated 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.</p>
Cause of condition	The Department does not maintain a subsidiary ledger due to the inadequacy of records. Also, there is a lack of analysis by management of existing reports.
Effect of condition	The Department cannot make the proper collection efforts and the Department's accounting system does not properly present the financial results of the operations. Failure to perform a periodic analysis of amounts due to the Department and develop a consistent methodology to support the amounts recorded as uncollectible accounts receivable could result in a material misstatement of accounts receivable.
Recommendation	<p>We recommend to management the following:</p> <ol style="list-style-type: none">1. An accounts receivable subsidiary ledger should be established for those funds that do not have it.2. Management should review periodically the contribution receivable subsidiaries of the Disability Insurance and Unemployment Insurance Funds and eliminate old and uncollectible balances.3. The Department should implement controls to periodically review accounts receivable and adopt a methodology to record, review, and adjust the provision for bad debts based upon historical collectability data and adjusted for any potential qualitative considerations.4. To improve the collection efforts.
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-4
Requirement	Financial Reporting: Capital Assets
Statement of Condition	<p>During our audit procedures over capital assets area we noted the following deficiencies:</p> <ul style="list-style-type: none">a. The Department provided a subsidiary of capital assets as of June 30, 2009; nevertheless, the amounts were not reconciled to a physical inventory.b. The Department has not performed a physical inventory to reconcile capital assets with their subsidiary to maintain accurate records and ascertain that all assets are properly identified with the required identifying tags.c. The capital assets subsidiary identified some assets as being stolen or retired. Some of these assets were subsequently identified by the Department's personnel as still being in use.d. The subsidiary maintained in the Department did not agree to the information sent to the Treasury Department, including differences in the acquisition costs and identifying numbers.e. The accounting system of the Department provides for the use of a capital assets module. This tool is not used to register capital assets and related depreciation and identifying information.
Criteria	<p>Act Number 230 of July 23, 1974, Puerto Rico Government Accounting Law, as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.</p> <p>Regulation Number 11, Basic Standards for Control and Accounting for Fixed Assets, Section XIV (A) and (G) – Physical Inventory, establishes that the internal records of inventory must be supported by physical inventories; and the physical inventory should be verified against the internal records of the agency. In addition, Section XVI – General Dispositions, states that agencies must keep its own internal procedures for the control of its fixed assets so that the property manager is aware of the acquisition and disposition thereof.</p>

(Continues)

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-4 (Continued)
Cause of condition	There are no adequate accounting policies and procedures for the reconciliation and analysis of the accounting transactions, specifically related to capital assets recording, retirement, depreciation and physical safeguarding.
Effect of condition	Inaccurate capital assets accounting information is being generated and does not allow a properly reporting of the capital asset balance in the basic financial statements. Also, the Department is not in compliance with financial reporting of capital assets required by the state and federal regulations.
Recommendation	We recommend that management establishes accounting policies and procedures to properly maintain capital assets records and the proper safeguarding of assets. Also, the Department must ensure compliance with state and federal regulations related to the capital assets.
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-5
Requirement	Financial Reporting: Accounts Payable, Benefits payable, Encumbrances and Accrued Vacations/Bonus
Statement of Condition	<p>During our audit procedures over accounts payable area we noted the following deficiencies:</p> <p><u>Accounts Payable – Governmental and Proprietary Funds:</u></p> <ol style="list-style-type: none">1. Subsidiaries of accounts payable are not reconciled with general ledger accounts and are not being reviewed periodically. Most of the fund accounts payable balances in the subsidiary have the same balance as prior year.2. There is no a subsidiary or a breakdown of the accumulation made in the account L5030 – Vouchers Payable as of June 30, 2009. <p><u>Benefits Payable – Proprietary Funds</u></p> <ol style="list-style-type: none">1. The Department has established procedures to determine the balance of benefits payable at the end of the year for each of the Proprietary Funds (Unemployment Insurance, Driver's Insurance and Disability Insurance) for financial statement presentation based on existing claims and subsequent payments. However, the account balances are not reconciled on a monthly basis. <p><u>Encumbrances – Governmental Funds</u></p> <ol style="list-style-type: none">1. Subsidiaries of encumbrances are not reconciled with general ledger accounts. <p><u>Accrued Vacations and Bonus</u></p> <ol style="list-style-type: none">1. The accrued vacations and bonus are not reconciled on a monthly basis. The balances of these accounts are adjusted at the end of the fiscal year for financial statements presentation only.

(Continues)

**COMMONWEALTH OF PUERTO RICO
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-5 (Continued)
Criteria	<p>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.</p> <p>Act Number 230 of July 23, 1974, Puerto Rico Government Accounting Law, as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.</p> <p>Regulation Number 9, Regulation of Basic Rules for the Special Disbursement Officers appointed by the Secretary of the Treasury, Article XIII (Closing of Fiscal Year), states that from the unspent balances the special disbursement officers should make payments for expenses incurred or legally contracted obligations during that fiscal year. Personnel designated by the Agency shall certify the Official Disbursement Officer all accounts, expenses and liabilities to be paid after the close of the fiscal year.</p>
Cause of condition	Lack of analysis of the Department's management and adequate procedures for reviewing and adjusting the subsidiaries at the end of the month.
Effect of condition	We were unable to determine proper recording and balances of liabilities since there were no reliable accounts payable subsidiary ledgers.
Recommendation	<p>We recommend the following:</p> <ol style="list-style-type: none">1. The Finance Department should maintain a subsidiary of all open invoices and it must be reconciled on a monthly basis with the general ledger balance. Differences and reconciling items should be investigated and adjusted on a timely basis. Management should review periodically the reports for accuracy and completeness.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-5 (Continued)
	<ol style="list-style-type: none">2. Management should provide and/or increase trainings to the accounting personnel related to the accounts payable module of the Munis Live Program. The Department should maximize the resources that they have in Munis Live Program and make a proper use of it.3. The internal control structure over benefits payable should be reviewed in order to provide assurance of the appropriate reconciliation and recording of these obligations.4. The aging of encumbrances should be reconciled on a monthly basis.5. Vacations and bonus accruals should be updated monthly.
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

**COMMONWEALTH OF PUERTO RICO
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference 2009-II-6
 Requirement Filing System
 Statement of Condition The following payment vouchers were not provided for auditors' examination:

<u>Journal or Voucher No.</u>	<u>Date</u>	<u>Amount</u>	<u>Fund</u>
AP00899831	8/1/2008	2,000,000	Disability Insurance
AP00959815	5/13/2009	374,791.93	Disability Insurance
09145023	7/1/2009	60,000.00	Disability Insurance

In addition, in our examination of proposals from Act 52 – Salaries Incentives to Develop and Maintain Jobs, we found the following deficiencies:

1. Payment Voucher number 09141754, dated 10/20/2008, amounting \$18,750, did not include any of the following documents to issue the payment:
 - a. Time cards (attendance sheets, or other form of evidence that employees worked the hours subject of reimbursement)
 - b. Bank statement
 - c. Cleared checks

2. The contract file for contract number 2009-000288 did not include the proposal of funds.

Criteria Regulation Number 23 (Second Revision), Conservation of Fiscal Documents Required for Examination and Verification of Accounts and Fiscal Operations, Article IV (Conservation of Documents), states that the original fiscal documents will be retained for six years or until an intervention made by the Comptroller, whichever occurs first.

Cause of condition Lack of proper control and organization over the filing system.

Effect of condition Disbursements without proper documentation could lead to unauthorized or unallowable payments.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Reference	2009-II-6 (Continued)
Recommendation	We recommend improving the filing system. The accounting records should be filed and stored in a systematic manner, and a process should be specified for retrieving and replacing documents in an orderly fashion so that they may be easily located when needed.
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-1
Agency	US DEPARTMENT OF LABOR
Requirement	Financial Reporting – All Federal Programs Reportable Condition
Statement of Condition	As discussed in the findings 2009-II-1, 2009 II-2, 2009-II-5 and 2009-II-6, 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. Refer to these findings for more details.
Criteria	Refer to findings 2009-11-01, 2009-11-2, 2009-11-5 and 2009-11-6.
Cause of Condition	Refer to findings 2009-11-01, 2009-11-2, 2009-11-5 and 2009-11-6.
Effect of Condition	Refer to findings 2009-11-01, 2009-11-2, 2009-11-5 and 2009-11-6.
Recommendation	Refer to findings 2009-11-01, 2009-11-2, 2009-11-5 and 2009-11-6.
Questioned Costs	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-2
Agency	US DEPARTMENT OF LABOR
Award	Unemployment Insurance
CFDA Number	17.225
Requirement	Reporting
Statement of Condition	<p>During our test of reporting we found the following deficiencies:</p> <ol style="list-style-type: none">1. ETA - 227 Report, Overpayment Detection and Recovery Activities for the quarter ended December 31, 2008 was due on February 1, 2009 and was submitted on February 26, 2009, 25 days late.2. ETA - 902 Report, DUA Activities Under the Stafford Act, as of December 31, 2008 was due on February 2, 2009 and was submitted on February 3, 2009, 1 day late.
Criteria	<p>The OMB Circular A-133 Compliance Supplement for Unemployment Insurance (CFDA 17.225) states the reporting requirements for financial and special reports. Also, additional instructions and guidelines for UI Financial Reporting are contained in ET Handbook 336, State Quality Service Plans for UI Operations; ET Handbook 401, UI Reports Handbook 401; and ET Handbook 356, Disaster Unemployment Assistance (DUA).</p>
Cause of Condition	<p>The Department did not establish good internal control procedures to avoid delays in the submission of the reports.</p>
Effect of Condition	<p>The Department is not in compliance with federal regulations. The Department could be exposed to administrative sanctions by the federal awarding agencies, including the withholding of funds for late submission of the reports.</p>
Recommendation	<p>The Department of Labor should establish internal control procedures, including the monitoring and follow-up of the preparation of the reports, to comply with the due dates established in federal regulations.</p>
Questioned Costs	None
Auditee Response	See Grantee's Corrective Action Plan

**COMMONWEALTH OF PUERTO RICO
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-3
Agency	U.S. Department of Labor
Award	Unemployment Insurance
CFDA Number	17.225
Requirement	Internal control -Unemployment Insurance (UI) Program
Statement of Condition	<p>We examined sixty (60) benefit payments of the Unemployment Insurance Program beneficiaries and noted the following:</p> <ol style="list-style-type: none">1. Eleven (11) subsequent claims were not provided to us for our inspection. We were not able to ascertain if they were completed in all its parts.2. Copies of four (4) cleared checks were not provided for our inspection.
Criteria	<p>According to Ruling Number 2, Section 3.3, from Act Number 74, Employment Security Act of Puerto Rico, of June 21, 1956, the beneficiary should file the subsequent claims (Form PRSD 566) at the end of the second week. In addition, the "Basic Guidelines" section of OMB Circular A-87, Attachment A, Section C, states that costs must be adequately documented.</p>
Cause of Condition	<p>Inadequate monitoring procedures from the personnel in charge of preparing and keeping the beneficiaries' files in local UI offices.</p>
Effect of condition	<p>The inadequate monitoring procedures for beneficiaries files can cause that benefits payments be paid to ineligible claimants.</p>
Recommendation	<p>We recommend that the UI management implement proper monitoring and record keeping procedures for beneficiaries' files to ensure that all subsequent claims forms are included in files and to prevent possible benefit payments to ineligible claimants.</p>
Questioned Costs	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-4
Agency	U.S. Department of Labor
Award	Unemployment Insurance
CFDA Number	17.225
Requirement	Internal Control - Special Tests and Provisions
Statement of Condition	We examined sixty (60) employers' files from Unemployment Insurance Program and noted that nineteen (19) employers are active in the SABEN system, but appear as not submitting or paying their required Quarterly Unemployment & Disability Insurance Contribution Report for many years. We inquired the management of the Contributions Division about this situation and how the Department is working with it. Management ascertained that the only procedure they perform is to send a letter to that employer notifying their status. The letter is sent on a yearly basis with no further investigations performed.
Criteria	According to the OMB Circular A-133 Compliance Supplement for Unemployment Insurance (CFDA 17.225), "States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302 (a) 03 (a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form".
Cause of condition	Inadequate monitoring procedures from the Contributions Division's personnel to follow up if employers are active or inactive, and the collection of state unemployment taxes from employers.
Effect of condition	The inadequate monitoring procedures from the Contributions Division prevent the Unemployment Insurance Program to collect state unemployment taxes proceeds from delinquent employers.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-4 (Continued)
Recommendation	We recommend that the Contribution Division's management implement proper monitoring and record keeping procedures to clear from the employers' database inactive from active employers and to establish procedures for efficient collection of state unemployment taxes.
Questioned costs	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-5
Agency	U.S. Department of Labor
Award	Unemployment Insurance
CFDA Number	17.225
Requirement	Special Tests and Provisions - Employer Experience Rating
Statement of Condition	We examined sixty (60) employers' files from Unemployment Insurance Program and noted that in one (1) employer, amounts posted to the system and the Contributions Ledger does not agree with those of the June 30, 2009 Quarterly Unemployment & Disability Insurance Contribution Return.
Criteria	According to the OMB Circular A-133 Compliance Supplement for Unemployment Insurance (CFDA 17.225), "For the purpose of proper administration of the federally approved experience-rated UI tax system, the State Workplace Agency maintains accounts, or subsidiary ledgers, on State UI taxes received or due from individual employers, and the UC benefits charged to the employer". Also, 20 CFR, part 627, Subpart D, Number 627.425 (b) establishes that recipients and subrecipients shall ensure that their own financial systems as well as those of their subrecipients provide fiscal control and procedures that are: (1) In accordance with generally accepted accounting principles applicable in each State including: (i) Information pertaining to subgrant and contract awards, obligations, unobligated balances, assets, liabilities, expenditures and income; (ii) Effective internal controls to safeguard assets and assure their proper use; (iii) A comparison of actual expenditures with budgeted amounts for each subgrant and contract; (iv) Source documentation to support accounting records; and (v) Proper charging of costs and cost allocation; and (2) sufficient to (i) Permit preparation of required reports; (ii) Permit the tracing of funds to a level of expenditure adequate to establish that funds have not been used in violation of the applicable restrictions of the use of such funds, (iii) As required by section 165 (g), permit the tracing of program income, potential stand-in costs and other funds that are allowable except for funding limitations, as defined in 627.480 (f) of this part, Audits; and (iv) Demonstrate compliance with the matching requirement of section 123 (b) (2).

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-5 (Continued)
Cause of Condition	The Contributions Division's personnel did not verify efficiently the tracing from the Quarterly Unemployment & Disability Insurance Contribution Return to the information included in the accounting records.
Effect of condition	The inadequate monitoring procedures from the Contributions Division prevent the Unemployment Insurance Program to compute the accuracy of the employer's annual State UI tax rate.
Recommendation	We recommend that the Contribution Division's management improves the monitoring procedures to assure that the accounting records have accurate information.
Questioned Costs	None
Auditee Response	See Grantee's Corrective Action Plan.

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-6
Agency	U.S. Department of Labor
Award	Employment Service/Wagner Peysner Funded Activities
CFDA Number	17.207
Requirement	Allowed Costs/Cost Principle
Statement of Condition	<p>We examined sixty (60) disbursements from the Employment Services Program and noted the following:</p> <ol style="list-style-type: none">1. The contract from one (1) disbursement was not provided for the auditor's examination.2. One (1) disbursement voucher in the amount of \$1,273 was not provided for our inspection.
Criteria	<p>According to the criteria contained in the "Basic Guidelines" section of OMB Circular A-87, Attachment A, Section C (Gov. Doc. No. 4), charges should be "supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, and canceled checks, and were correctly charged as to account, amount, and period".</p>
Cause of Condition	<p>The Department has not implemented adequate internal controls to provide reasonable assurance that only documented, authorized and allowable costs are charged to federal programs.</p>
Effect of Condition	<p>Disbursements without proper documentation could lead to unauthorized or unallowable payments.</p>
Recommendation	<p>The Department should implement adequate procedures to assure that disbursements are properly documented and supported as required by state and federal regulations.</p>
Questioned costs	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference 2009-III-7

Agency U.S. Department of Labor

Award Employment Service/Wagner Peyser funded Activities, Disable Veterans' Outreach Program, and Local Veterans' Employment Representative Program

CFDA Numbers 17.207, 17.801 and 17.804

Requirement Reporting

Statement of Condition We examined the reports required to the Employment Service, Disable Veterans' Outreach and Local Veterans' Programs to submit and noted the following deficiencies:

Name of the Report	Quarter End	Date Submitted	Date Required	Days in Excess
Financial Status Report SF-269 (DVOP)	3/31/2009	5/19/2009	4/30/2009	19
Financial Status Report SF-269 (LVer)	3/31/2009	5/19/2009	4/30/2009	19
ETA 9130, Financial Report	3/31/2009	6/30/2009	5/15/2009	46
Services to Participants, ETA 9002-A	12/31/2008	2/20/2009	2/14/2009	6
Services to Participants, ETA 9002-A	3/31/2009	5/19/2009	5/15/2009	4
Services to Veterans ETA 9002-B	12/31/2008	2/20/2009	2/14/2009	6
Services to Veterans ETA 9002-B	3/31/2009	5/19/2009	5/15/2009	4
Performance Outcomes, ETA 9002-C	9/30/2008	2/20/2009	11/14/2008	98
Performance Outcomes, ETA 9002-C	12/31/2008	2/20/2009	2/14/2009	6
Performance Outcomes, ETA 9002-C	3/31/2009	6/15/2009	5/15/2009	31
Performance Outcomes, ETA 9002-C	6/30/2009	8/31/2009	8/14/2009	17
Veterans, Eligible Persons and TSM's, ETA 9002-D	9/30/2008	2/20/2009	11/14/2008	98
Veterans, Eligible Persons and TSM's, ETA 9002-D	12/31/2008	2/20/2009	2/14/2009	6
Veterans, Eligible Persons and TSM's, ETA 9002-D	3/31/2009	6/15/2009	5/15/2009	31
Veterans, Eligible Persons and TSM's, ETA 9002-D	6/30/2009	8/31/2009	8/14/2009	17
Job Openings Received, ETA 9002-E	12/31/2008	2/20/2009	2/14/2009	6
Job Openings Received, ETA 9002-E	3/31/2009	5/19/2009	5/15/2009	4
DVOP Quarterly Report, VETS 200-A	9/30/2008	2/20/2009	11/11/2008	98

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference 2009-III-7 (Continued)

Name of the Report	Quarter End	Date Submitted	Date Required	Days in Excess
DVOP Quarterly Report, VETS 200-A	12/31/2008	2/20/2009	2/14/2009	6
DVOP Quarterly Report, VETS 200-A	3/31/2009	6/15/2009	5/15/2009	31
DVOP Quarterly Report, VETS 200-A	6/30/2009	8/31/2009	8/14/2009	17
LVER Quarterly Report, VETS 200-B	9/30/2008	2/20/2009	11/14/2008	98
LVER Quarterly Report, VETS 200-B	12/31/2008	2/20/2009	2/14/2009	6
LVER Quarterly Report, VETS 200-B	3/31/2009	6/15/2009	5/15/2009	31
LVER Quarterly Report, VETS 200-B	6/30/2009	8/31/2009	8/14/2009	17
DVOP/LVER Quarterly Report, VETS 200-C	9/30/2008	2/20/2009	11/14/2008	98
DVOP/LVER Quarterly Report VETS 200-C	12/31/2008	2/20/2009	2/14/2009	6
DVOP/LVER Quarterly Report VETS 200-C	3/31/2009	6/15/2009	5/15/2009	31
DVOP/LVER Quarterly Report VETS 200-C	6/30/2009	8/31/2009	8/14/2009	17

Criteria 29 CFR 97.41 (b) (4) Financial Status Report - Standard Form 269 establishes that when reports are required on a quarterly or semiannual basis, they will be due on 30 days after the reporting period. In addition, OMB Circular A-133 Compliance Supplement for Employment Services/Wagner-Peyser Funded Activities (CFDA 17.207); Disabled Veterans' Outreach Program (CFDA 17.801); and Local Veterans' Employment Representative Program (CFDA 17.804) states that ETA 9130, Financial Reports, are due 45 days after the end of the reporting quarter. In addition, ET Handbook No. 406, ETA 9002 and VETS 200 Data Preparation Handbook, pages 7 and 8, state that ETA 9002 and VETS 200 Reports are quarterly and required 45 days from their quarter end dates.

Cause of Condition The Department did not establish good internal control procedures to avoid delays in the submission of the reports.

Effect of Condition The Department is not in compliance with federal regulations. The Department could be exposed to administrative sanctions by the federal awarding agencies, including the withholding of funds for lately submission of the reports.

Recommendation The Department's Finance Office should establish internal control procedures, including the monitoring and follow up of the preparation of the reports, to comply with due dates established in federal regulations.

Questioned costs None

Auditee Response See Grantee's Corrective Action Plan.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-8
Agency	U.S. Department of Labor
Award	Unemployment Insurance, Employment Service/Wagner-Peyser Funded Activities
CFDA Number:	17.225 and 17.207
Requirement	Suspension and Debarment
Statement of Condition	<p>The Department did not provide us with evidence of its verification of vendors in the Excluded Party List System in the following instances:</p> <ol style="list-style-type: none">1. One (1) contract from five (5) contracts examined2. Two (2) formal bids examined
Criteria	<p>2CFR part 180 establishes that - when a non-federal entity enters into a covered transaction (contracts equal or exceeding \$25,000) with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.</p>
Cause of Condition	<p>The Department has not implemented adequate internal controls to make the suspension and debarment verification and to provide in electronic format the certification by checking the Excluded Party List System (EPLS).</p>
Effect of condition	<p>The Department may contract with a suspended or debarred vendor, and pay it with funds from federal awards.</p>

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-8 (Continued)
Recommendation	The Department should implement adequate procedures to obtain in electronic format or printed version the excluded party list information. The printed version may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (http://epls.arnet.gov).
Questioned Costs	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-9
Agency	U.S. Department of Labor
Award	Unemployment Insurance, Employment Service/Wagner-Peyser Funded Activities
CFDA Number	17.225 and 17.207
Requirement	Equipment Management
Statement of Condition	During our audit we noted that the Department does not maintain adequate internal control procedures for the accountability and safeguarding of the property and equipment acquired with federal funds.
Criteria	Circular A-102 Common Rule requires grant recipients that the equipment purchased with federal funds be used in the Program for which it was acquired, or when appropriate, other federal programs and that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records and an appropriate control system shall be used to safeguard the equipment.
Cause of Condition	No inventory or reconciliation of property ledger procedures has been established as required by federal and state regulations.
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. Also, due to lack of controls, the equipment is susceptible to loss that may not be detected by management on time.
Recommendation	We recommend management to improve its internal control procedures and supervision over equipment management. 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 Costs	None.
Auditee Response	See Grantee's Corrective Action Plan.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-10
Agency	U.S. Department of Labor
Award	Employment Service/Wagner-Peyser Funded Activities and Unemployment Insurance
CFDA Number	17.207 and 17.225
Requirement	Allowed Costs/Cost Principle (Payroll Records)
Statement of Condition	<p>We selected a sample of twenty five (25) employee files for inspection and we noted that the following documents are missing on the employees' files:</p> <ol style="list-style-type: none">1. One (1) file did not have copy of ID card as required by I-9 Form (federal program employee).2. One (1) file did not have copy of the Social Security card as required by the I-9 Form (federal program employee).3. Eight (8) files did not have the Public Worker's Duties Sheet (five state program employees and three federal program employees).
Criteria	<p>Federal and local labor laws, and regulations require proper administrative procedures to ensure that personnel files include all required documentation. Also, OMB Circular A-87 establishes the general guidelines for the allowance of costs charged to Federal program. Such guidelines require detailed records to document the history of each disbursement, and support proper cost allowance and accounting distribution.</p>
Cause of condition	<p>The Department's Human Resources Office does not review the employees' files frequently to ensure completeness of employee files regarding proper documentation.</p>
Effect of condition	<p>The Department does not comply with Federal and State law and regulations regarding personnel management.</p>
Recommendation	<p>The Department's Human Resources Office should review periodically and update employees' files when applicable. A checklist with the documentation required on files should be developed and maintained for ease of this task.</p>
Questioned cost	None
Auditee Response	See Grantee's Corrective Action Plan

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-11
Agency	U.S. Department of Labor
Award	Employment Service/Wagner-Peyser Funded Activities and Unemployment Insurance
CFDA Number	17.207 and 17.225
Requirement	Reporting
Statement of Condition	The Department has not submitted to the Federal Government the Data Collection Form and the Reporting Package for the years ended June 30, 2009. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30 days after the receipt of the auditor's reports or nine months 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 OMB Circular A-133 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 years 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.

(Continues)

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SECTION III - MAJOR FEDERAL AWARDS PROGRAMS - FINDINGS AND QUESTIONED COSTS

Finding Reference	2009-III-11 (Continued)
Cause	The Department has not been able to provide the necessary information for the preparation of the single audit report on a timely basis in order to complete its reporting requirement for the 2009 year.
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 establish procedures to close the fiscal year accounting on time.
Questioned costs	None
Auditee Response	See Grantee's Corrective Action Plan.

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**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Original Finding Number</u>	<u>Prior Audit Finding</u>	<u>Current Status of Prior Audit Finding</u>
08-01	<u>Accounting System</u> . The accounting system does not provide for periodic recording of transactions under the accrual basis of accounting. Audit adjustments for the years 2003, 2004 and 2005 were not posted in the general ledger. The Department has not established a double entry accounting system to properly account for the results of the following proprietary funds: Unemployment Insurance and Driver's Insurance.	Partially corrected. Refer to current finding number 2009-II-1 (items 1, 2, 4 and 5).
08-02	<u>Cash - Bank Accounts</u> . Unreconciled differences in cash accounts for governmental, special revenue and proprietary funds.	Finding was not corrected. Refer to current finding number 2009-II-2.
08-03	<u>Investment</u> . The investments held by the Department belonging to the Temporary Occupational Disability Insurance has not been reconciled with the general ledger on a monthly basis.	Corrective action has been taken.
08-04	<u>Accounts Receivable - Proprietary Funds</u> . The accounts receivable subsidiary ledger maintained by the Department is not accurate.	Finding was not corrected. Refer to current finding number 2009-II-3 (item 2).
08-05	<u>Accounts Receivable - Others</u> . The Department does not maintain a complete subsidiary of amounts Due from Federal Government and Other Accounts Receivable.	Partially corrected - For Due from Federal Government as of June 30, 2009, the Finance Office provided an excel file by program with a detail of Accounts Receivable Federal Government. Finding was not corrected - Other Accounts Receivable. Refer to current finding number 2009-II-3 (item 1).
08-06	<u>Capital Assets</u> . Inadequate records of capital assets.	Finding was not corrected. Refer to current finding number 2009-II-4.

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**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
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<u>Original Finding Number</u>	<u>Prior Audit Finding</u>	<u>Current Status of Prior Audit Finding</u>
08-07	<u>Accounts Payable and Benefits Payable</u> . Accounts Payable subsidiaries not agreed with general ledger accounts. Benefit payable not reconciled on a monthly basis.	Finding was not corrected. Refer to current finding number 2009-II-5.
08-08	<u>Payroll</u> . Discrepancies on the amounts of salaries reported when compared books and the report prepared by Puerto Rico Treasury Department for the purpose of prepare FICA tax returns.	Corrective action has been taken.
08-09	<u>Payroll</u> . The Department does not prepare and file the Unemployment Insurance and Disability Insurance tax returns.	Corrective action has been taken.
08-10	<u>Payroll</u> . The Department's Finance Department does not record the transactions related to payroll and bonus accruals as required by generally accepted accounting principles.	Corrective action has been taken.
08-11	<u>Payroll</u> . Incomplete employees' files.	Finding was not corrected. Refer to current finding number 2009-III-10.
08-12	<u>Income and Collection Test</u> . No reviewer signature on Unemployment Insurance and Disability Insurance income files.	Corrective action has been taken.
08-13	<u>Filing System</u> . Deficiency in the filing system maintained by the Department.	Finding was not corrected. Refer to current finding number 2009-II-6.
08-14	<u>Financial Statements</u> . Financial information is not reviewed, analyzed and reconciled on a monthly basis.	Finding was not corrected. Refer to current finding number 2009-II-1 (item 8).

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**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
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<u>Original Finding Number</u>	<u>Prior Audit Finding</u>	<u>Current Status of Prior Audit Finding</u>
	<i><u>Internal Control Over Financial Reporting .</u></i>	
	1. The Department has not developed an uniform accounting policies and procedures manual.	1. Finding was not corrected. Refer to current finding number 2009-II-1 (item 8).
	2. Improper segregation of duties in the Contributions Division (Unemployment Insurance and Disability Insurance).	2. Corrective action has been taken.
08-15	3. Improper recording of returned checks.	3. Finding was not corrected. Refer to current finding number 2009-II-1 (item 6).
	4. There is no formal policies and procedures manual that will enhance the uniformity of internal audit procedures among department personnel.	4. Corrective action has been taken.
	5. Inadequate records of encumbrance accounts.	5. Finding was not corrected. Refer to current finding number 2009-II-5.
08-16	<i><u>Test of Transactions - "Law 52 & 82 "</u></i> Incomplete beneficiaries' files of Law 52 and 82.	Finding was not corrected. Refer to current finding number 2009-II-6.
08-17	<i><u>Test of Transactions - Disbursements .</u></i> Incomplete voucher payments.	Finding was not corrected. Refer to current finding number 2009-III-6.
08-18	<i><u>Accrued Vacation and Sick Leave .</u></i> There are 23 differences in the total accumulation per employee between the employees' accumulation cards and the final report submitted to the Treasury Department.	Finding was not corrected. Refer to current finding number 2009-II-5.
08-19	<i><u>All Federal Programs Reportable Condition .</u></i> Inadequate accounting records.	Finding was not corrected. Refer to current finding number 2009-III-1.

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**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND QUESTIONED COSTS
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<u>Original Finding Number</u>	<u>Prior Audit Finding</u>	<u>Current Status of Prior Audit Finding</u>
08-20	<u>All Federal Programs Reportable Condition</u> . Deficiencies regarding internal control structure over financial reporting. Federal reports were not submitted on time and federal programs were not properly monitored as to compliance with applicable laws and regulations.	Finding was not corrected. Refer to current findings number: 2009-III-2, 2009-III-7 and 2009-III-11.
08-21	<u>All Federal Programs Reportable Condition</u> . There is no formal subsidiary of property and equipment that shows acquisitions and dispositions segregated by federal programs.	Finding was not corrected. Refer to current finding number 2009-III-9.
08-22	<u>Employment Services CFDA-17-207</u> . Financial Status Report not submitted on time.	Finding was not corrected. Refer to current finding number 2009-III-7.
08-23	<u>Unemployment and Training Insurance - CFDA - 17-225</u> . Incomplete participants' records.	Finding was not corrected. Refer to current finding number 2009-III-3.
08-24	<u>All Federal Programs</u> . Data Collection Form and the Reporting Package was not submitted on time.	Finding was not corrected. Refer to current finding number 2009-III-11.