

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Institute of Forensic Sciences
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2007, which collectively comprise the Institute's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the fiscal 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 June 15, 2009 on our consideration of the Institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope

of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Institute. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ortiz, Rivera, Rivera & Co.

San Juan, Puerto Rico
June 15, 2009

The stamp 2459233 was affixed to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements of the Institute of Forensic Sciences includes all financial activities and include notes to the financial statements that explain and provide detail data on information in the financial statements.

The following is management's discussion and analysis of the Institute of Forensic Science's financial performance for the year ended June 30, 2007. It should be read in conjunction with the letter of transmittal and the accompanying financial statements.

Financial Highlights

- The Institute's liabilities decrease \$3,712,770 during 2007. The Institute's net asset increase \$6,022,882 during 2007.
- The total revenues of the Institute increased \$2,051,888 from 2007. This increase is primarily due to the increase in General and Other Governmental funds.
- The operation's expenses in 2007 decreased by \$1,622,053 from 2006, primarily due to the decrease of Capital Projects Funds.

The Institute of Forensic Science's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when a liability is incurred, and include all of the financial activities of the Institute of Forensic Sciences. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. See notes to financial statements for a summary of significant accounting policies.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Institute's basic financial statements. The Institute's basic financial statements consist of the Statement of Net Assets, Statements of Activities, Balance Sheet-Governmental Funds, Balance Sheet to Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement Activities, Statement of Revenues and Expenditures-General Fund. The first statements report the Institute's net assets and how they have changed. Net assets are the difference between the Institute's total assets and liabilities.

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The following table summarizes the net assets of the Institute at June 30, 2007:

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 3,995,418
Other receivables	128,605
Capital assets, net	<u>26,233,206</u>
Total assets	<u>\$30,357,229</u>
<u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$802,304
Due to other agencies	286,168
Non-current liabilities:	
Accrued compensated absences – due within one year	166,354
Accrued compensated absences and claims and judgments – due in more than one year	<u>4,946,527</u>
Total liabilities	<u>\$ 6,201,353</u>
Net Assets	
Investment in capital assets, net of related debt	\$26,233,206
Restricted for:	
Capital Projects	518,593
Unrestricted	<u>(2,595,923)</u>
Total net assets	<u>\$24,155,876</u>

REVENUES

Operating and non-operating revenues for the Institute of Forensic Sciences totaled \$18,899,571 for the year ended June 30, 2007. Of this total, general fund totaled \$18,163,229 or 96 percent of total revenues. Capital projects totaled \$107,055 or 1 percent of total revenues. Other governmental funds totaled \$629,287 or 3 percent of total revenues.

A summary of revenues is provided in the following tabulation:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$17,652,500	\$ -	\$ -	\$17,652,500
Federal financial assistance			629,287	629,287
Charges for service	336,278			336,278
Interest	<u>174,451</u>	<u>107,055</u>		<u>281,506</u>
Total Revenues	<u>\$18,163,229</u>	<u>\$107,055</u>	<u>\$629,287</u>	<u>\$18,899,571</u>

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EXPENSES

Operating and non-operating expenses totaled \$19,520,897 for the year ended June 30, 2007. Of this amount, salaries and payroll taxes totaled \$10,841,076, fringe benefits totaled \$1,192,674, equipment and materials totaled \$2,042,553, utilities totaled \$801,283, professional services totaled \$622,467, repairs and maintenance totaled \$271,619, representation and travel totaled \$128,141, rent totaled \$73,561, transportation \$95,634, insurance totaled \$76,049, printing totaled \$23,399, others totaled \$424,788, and capital outlays totaled \$2,927,653.

Summary data is presented in the following tabulation:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
EXPENDITURES				
Salaries and payroll taxes	\$10,679,260	\$ -	\$161,816	\$10,841,076
Fringe benefits	1,189,974		2,700	1,192,674
Equipment and materials	1,342,967		699,586	2,042,553
Utilities	801,283			801,283
Professional services	602,891		19,576	622,467
Repairs and maintenance	271,619			271,619
Representation and travel	121,944		6,197	128,141
Rent	73,561			73,561
Transportation	95,634			95,634
Insurance	76,049			76,049
Printing	23,399			23,399
Others	398,243		26,545	424,788
Capital outlays		<u>2,927,653</u>		<u>2,927,653</u>
Total Expenditures	<u>\$15,676,824</u>	<u>\$2,927,653</u>	<u>\$916,420</u>	<u>\$19,520,897</u>

Financial Analysis of Institute of Forensic Sciences

The financial statements are prepared on the accrual basis, recognizing revenue when earned and expenses when incurred, and include all of the financial activities of the Institute of Forensic Sciences. Assets are designated as restricted in accordance with debt and other agreements.

Institute's operations ended the year with a total of net assets of \$24,155,876. Net assets increase \$6,277,761 during 2007. The increase can be attributed mainly to the increase in legislative appropriations received during 2007.

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Budget Variances in the General Fund

The following tabulation compared the differences between the original budgets for the general fund, the final amended budget actual amounts for the year ended June 30, 2007.

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Legislative appropriations	\$18,325,000	\$17,652,500	\$17,652,500
Interest			<u>174,451</u>
Total revenues	<u>\$18,325,000</u>	<u>\$17,652,500</u>	<u>\$17,826,951</u>
EXPENDITURES			
Salaries and payroll taxes	13,337,076	13,337,076	11,869,234
Equipment and materials	872,712	872,712	1,142,903
Utilities	646,699	646,699	801,298
Professional services	636,000	573,672	602,891
Transportation	137,614	137,614	95,634
Others	924,727	924,727	807,342
Budgetary reserve	<u>1,832,500</u>	<u>1,160,000</u>	
Total expenditures	<u>\$18,325,000</u>	<u>\$17,652,500</u>	<u>\$15,319,302</u>
Difference between original budget amounts and actual budget			<u>\$2,507,649</u>

Capital Assets

Operating Fund assets with a cost of \$100 or more are capitalized and depreciated over their useful lives using the straight-line method. As of June 30, 2007, capital assets and accumulated depreciation totaled \$36,217,421 and \$9,984,215 respectively.

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Summary data is presented in the following tabulation:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets:				
Building and building improvements	\$21,748,130	\$6,390,440	\$ -	\$28,138,570
Equipment, furniture and fixtures	6,720,476	935,428	298,850	7,357,054
Vehicles	<u>840,640</u>	<u>24,997</u>	<u>143,840</u>	<u>721,797</u>
Total capital assets	<u>\$29,309,246</u>	<u>\$7,350,865</u>	<u>\$442,690</u>	<u>\$36,217,421</u>
Less accumulated depreciation for:				
Building and building improvements	\$4,145,880	\$ 296,134	\$ -	\$4,442,014
Furniture and fixtures	4,466,560	672,832	199,332	4,940,060
Vehicles and equipment	<u>678,630</u>	<u>61,214</u>	<u>137,703</u>	<u>602,141</u>
Total accumulated depreciation	<u>\$9,291,070</u>	<u>\$1,030,180</u>	<u>\$337,035</u>	<u>\$9,984,215</u>
 Total capital assets, net	 <u>\$20,018,176</u>	 <u>\$6,320,685</u>	 <u>\$548,345</u>	 <u>\$26,233,206</u>

Request for Information

This financial report is designed to provide interested parties with a general overview of the Institute of Forensic Science's finances. Should you have any questions about this report or need additional information, please contact the Director of Budget and Finance Division, Call Box 11878 Caparra Heights Station, San Juan, PR 00922.

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**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash and cash equivalents (Note 4)	\$ 3,995,418
Other receivables	128,605
Capital assets, net (Note 6)	<u>26,233,206</u>
 Total assets	 <u><u>\$ 30,357,229</u></u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 802,304
Due to other agencies (Note 7)	286,168
Noncurrent liabilities:	
Accrued compensated absences - due within one year	166,354
Accrued compensated absences and claims and judgments - due in more than one year	<u>4,946,527</u>
Total liabilities	<u>6,201,353</u>
Commitments (Note 10)	
Net Assets	
Investment in capital assets, net of related debt	26,233,206
Restricted for:	
Capital projects	518,593
Unrestricted	<u>(2,595,923)</u>
 Total net assets	 <u><u>\$ 24,155,876</u></u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and and Change in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities:				Governmental Activities	
Criminal investigation	<u>\$ 15,297,609</u>	<u>\$ 336,278</u>	<u>\$ 18,281,787</u>	<u>\$ 2,781,454</u>	<u>\$ 6,101,910</u>
General revenues:					
Interest income					281,506
Loss on disposition of assets					(105,655)
Total general revenues					<u>175,851</u>
Change in net assets					6,277,761
Net assets at beginning of year, as restated (Note 11)					<u>17,878,115</u>
Net assets at end of year					<u>\$ 24,155,876</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Assets</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 4)	\$ 3,591,927	\$ 154,754	\$ 248,737	\$ 3,995,418
Other receivables	128,605			128,605
Due from other funds (Note 5)	207,775	363,839	267,478	839,092
Total assets	<u>\$ 3,928,307</u>	<u>\$ 518,593</u>	<u>\$ 516,215</u>	<u>\$ 4,963,115</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities				
Account payable and accrued liabilities	\$ 740,911	\$ -	\$ 61,393	\$ 802,304
Due to other agencies (Note 7)	286,168			286,168
Due to other funds (Note 5)	631,317		207,775	839,092
Accrued compensated absences	166,354			166,354
Total liabilities	<u>1,824,750</u>	<u>-</u>	<u>269,168</u>	<u>2,093,918</u>
Commitments (Note 10)				
Fund Balance				
Reserved for:				
Encumbrances	1,037,699			1,037,699
Federal programs			247,047	247,047
Capital projects		518,593		518,593
Unreserved	1,065,858			1,065,858
Total fund balance	<u>2,103,557</u>	<u>518,593</u>	<u>247,047</u>	<u>2,869,197</u>
Total liabilities and fund balance	<u>\$ 3,928,307</u>	<u>\$ 518,593</u>	<u>\$ 516,215</u>	<u>\$ 4,963,115</u>

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Total fund balances - governmental funds \$ 2,869,197

Amounts reported for governmental activities in the statement
of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 26,233,206

- Accrued compensated absences and claims and judgments, are not due and payable in the current period and therefore are not reported in the funds. (4,946,527)

Net assets of governmental activities \$ 24,155,876

The accompanying notes are an integral part of these basic financial statements.

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**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$17,652,500	\$ -	\$ -	\$ 17,652,500
Federal financial assistance			629,287	629,287
Charges for service	336,278			336,278
Interest	174,451	107,055		281,506
Total revenues	<u>18,163,229</u>	<u>107,055</u>	<u>629,287</u>	<u>18,899,571</u>
EXPENDITURES				
Salaries and payroll taxes	10,679,260		161,816	10,841,076
Fringe benefits	1,189,974		2,700	1,192,674
Equipment and materials	1,342,967		699,586	2,042,553
Utilities	801,283			801,283
Professional services	602,891		19,576	622,467
Repairs and maintenance	271,619			271,619
Representation and travel	121,944		6,197	128,141
Rent	73,561			73,561
Transportation	95,634			95,634
Insurance	76,049			76,049
Printing	23,399			23,399
Others	398,243		26,545	424,788
Capital outlays		2,927,653		2,927,653
Total expenditures	<u>15,676,824</u>	<u>2,927,653</u>	<u>916,420</u>	<u>19,520,897</u>
Excess (deficiency) of revenues over (under) expenditures	2,486,405	(2,820,598)	(287,133)	(621,326)
OTHER FINANCING SOURCES:				
Transfer from Commonwealth of Puerto Rico		2,781,454		2,781,454
Total other financing sources	-	2,781,454	-	2,781,454
Excess (deficiency) of revenues and other sources over (under) expenditures	2,486,405	(39,144)	(287,133)	2,160,128
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(382,848)</u>	<u>557,737</u>	<u>534,180</u>	<u>709,069</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,103,557</u>	<u>\$ 518,593</u>	<u>\$ 247,047</u>	<u>\$ 2,869,197</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ 2,160,128

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 their estimated useful lives and reported as depreciation expense. 7,350,865
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental (1,030,180)
- Loss on disposition of assets is reported in the statement of activities, but do not require the use of current financial resources. (105,655)
- Some expenses such as accrued compensated absences and claims and judgments are reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (2,097,397)

Changes in net assets of governmental activities \$ 6,277,761

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Legislative appropriations	\$ 18,325,000	\$ 17,652,500	\$ 17,652,500	\$ -
Interest			174,451	174,451
Total revenues	18,325,000	17,652,500	17,826,951	174,451
EXPENDITURES				
Salaries and payroll taxes	13,337,076	13,337,076	11,869,234	1,467,842
Equipment and materials	872,712	872,712	1,142,903	(270,191)
Utilities	646,699	646,699	801,298	(154,599)
Professional services	573,672	573,672	602,891	(29,219)
Transportation	137,614	137,614	95,634	41,980
Others	924,727	924,727	807,342	117,385
Budgetary reserve	1,832,500	1,160,000	-	1,160,000
Total expenditures	18,325,000	17,652,500	15,319,302	2,333,198
 Excess of revenues under expenditures	 \$ -	 \$ -	 \$ 2,507,649	 \$ 2,507,649

The accompanying notes are an integral part of these basic financial statements.

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. ORGANIZATION

The Institute of Forensic Sciences (the "Institute") was created by Act 13 of July 24, 1985, as amended, for the purpose of guarantee objectivity in the criminal justice system through participation and scientific investigation as key role in clarifying beyond any reasonable doubt, the causes, means, and circumstances of deaths and crimes by forensic sciences.

The Institute is governed by an eight-member board comprised by the Secretary of Justice, who is the Chairman, the Police Superintendent, the Chanselour of Medical Science campus of the University of Puerto Rico, the Secretary of Health, the Administrative Director of the Office for Courts Administration and three other members appointed by the Governor with the consent of the Senate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Institute have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management's Discussion and Analysis - GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).

- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Institute, including capital assets and infrastructure. The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Program Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, desegregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

The net assets of the Institute will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

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- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Institute will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Institute for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB, as amended by Statement No. 39, "Determining whether certain organizations are component units - an amendment of Statement No. 14". The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Institute's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Institute's balances and transactions. Based on the aforementioned criteria, the Institute has no component units.

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (c) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Institute. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by intergovernmental revenues.

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 with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are 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 government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Institute reports the following major governmental funds:

1) General Fund

This is the operating fund of the Institute and accounts for all financial resources, except those required to be accounted for in another fund.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

2) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

d. Cash and Cash Equivalents

The Institute's Finance Director is responsible for investing available resources. The Institute is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Institute, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental column in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

g. Reservation of Fund Balance

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

1) Encumbrances

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

2) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

h. Compensated Absences

The Institute employees are entitled to 2.5 days per month, up to maximum of 60 days, for vacation, and 1.5 days per month, up to a maximum of 90 days, for sick leave. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the current rate, if the employee has at least ten years of services with the government.

The Public Service Personnel Law requires the executive agencies of the Commonwealth of annually pay the employees the accumulated vacation and such leave earned in excess of the limits mentioned above.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

statements and the reported amounts of revenues and expenditures/expenses during the reporting period.

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Institute has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2008-09
51	Accounting and Financial Reporting for Intangible Assets	2009-10
52	Land and Other Real Estate Held as Investments by Endowments	2008-09
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11

The impact of these statements on the Institute's financial statements has not yet been determined.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

The Institute is required by state law to adopt an annual budget for the general fund. The budget is adopted in accordance with a statutory basis of accounting

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

which is not in accordance with GAAP. As of September of the preceding year, the Institute prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

The proposed budget is submitted to the Office of Management and Budget (OMB). Once approved by OMB then it is submitted to the legislative bodies of the Commonwealth of Puerto Rico. Prior to July 1, the annual budget is legally enacted through passage of legislative appropriations.

b. 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 GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2007 is presented below for the general fund:

Excess of revenues over expenditures - budgetary basis	\$2,507,649
Entity differences:	
Non-budgeted funds, net	<u>(21,244)</u>
Excess of revenues over expenditures - GAAP basis	<u>\$2,486,405</u>

c. Legal Compliance

The legal level of budgetary control is at the individual expense object.

4. DEPOSITS - CUSTODIAL CREDIT RISK

a. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

The Institute maintains its deposits in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

5. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2007, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 207,775
Other Governmental Funds	General	267,478
Capital Project	General	<u>363,839</u>
		<u>\$ 839,092</u>

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance June 30, 2006 (as restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets, being depreciated:				
Building and building improvements	\$ 21,748,130	\$ 6,390,440	\$ -	\$ 28,138,570
Equipment, furniture, and fixtures	6,720,476	935,428	298,850	7,357,054
Vehicles	840,640	24,997	143,840	721,797
Total capital assets, being depreciated	<u>29,309,246</u>	<u>7,350,865</u>	<u>442,690</u>	<u>36,217,421</u>
Less accumulated depreciation for:				
Buildings and building improvements	4,145,880	296,134		4,442,014
Furnitures and fixtures	4,466,560	672,832	199,332	4,940,060
Vehicles	678,630	61,214	137,703	602,141
Total accumulated depreciation	<u>9,291,070</u>	<u>1,030,180</u>	<u>337,035</u>	<u>9,984,215</u>
Total capital assets, being depreciated, net	<u>20,018,176</u>	<u>6,320,685</u>	<u>105,655</u>	<u>26,233,206</u>
Governmental activities capital assets, net	<u>\$ 20,018,176</u>	<u>\$ 6,320,685</u>	<u>\$ 548,345</u>	<u>\$ 26,233,206</u>

7. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 are as follows:

	<u>General Fund</u>
Puerto Rico Electric Power Authority	\$ 84,063
Puerto Rico General Services Administration	32,696
Puerto Rico Retirement System	157,735
Puerto Rico Water and Sewer Authority	11,674
	<u>\$ 286,168</u>

8. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its

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FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico.

The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The System provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service of members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Institute on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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 ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will be either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn 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 will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

a. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Institute's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$788,000. The Institute's payroll for employees covered by ERS was

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

approximately \$8.5 million. The Institute total payroll for all employees was approximately \$9.6 million.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

9. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government through the Department of Justice of the Commonwealth of Puerto Rico. Any disallowed claims, including amounts already collected, may constitute a liability of the applicant funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Institute expects such amounts, if any, to be immaterial.

The Institute is a defendant in various lawsuits which claims for actual damages. The accompanying statement of net assets reflect a liability of approximately \$1.6 million, included as noncurrent liabilities, for the probable amounts of loss associated with these claims.

10. COMMITMENTS

The Institute had commitments at June 30, 2007 of approximately \$518,000 for the construction and improvements of current facilities.

11. RESTATEMENTS

a. Net Assets

The beginning balance of net assets has been restated to present the correct balance of capital assets as of July 1, 2006.

Net assets at beginning of year, as previously reported	\$18,132,994
To correct overstatement of capital outlays	(<u>254,879</u>)
Net assets at beginning of year, as restated	<u>\$17,878,115</u>

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Justice			
Pass-through the Puerto Rico Department of Justice			
Byrne Formula Grant Program	16.579		\$ 279,060
Forensic Casework DNA Backlog Reduction Program	16.743	2005-DA-BX-K055	312,213
Community Prosecution and Project Safe Neighborhoods	16.609		49,630
Edward Byrne Memorial Justice Assistance Grant Program	16.738		159,673
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		<u>115,138</u>
Subtotal U.S. Department of Justice			<u>915,714</u>
U.S. Department of Transportation			
Pass-through Program from:			
Transit Security Commission - State and Community Highway Safety	20.600		<u>706</u>
Subtotal U.S. Department of Transportation			<u>706</u>
TOTAL			<u>\$ 916,420</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Institute of Forensic Sciences 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Institute's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds within the other governmental funds.



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Puerto Rico Board of Certified
Public Accountants

**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 Board of Directors
Institute of Forensic Sciences
San Juan, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Institute of Forensic Sciences, as of and for the year ended June 30, 2007, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated June 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Institute'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 Institute's financial statements that is more than inconsequential will not be prevented or detected by the Institute's internal control.

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 Institute's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute of Forensic Sciences' 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance which we have reported to management of the Institute of Forensic Sciences in a separate letter dated June 15, 2009.

This report is intended solely for the information and use of the Institute's management, audit committee, and the 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
June 15, 2009

The stamp 2459234 was added to the original of this report





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Public Accountants

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

To the Board of Directors
Institute of Forensic Sciences
San Juan, Puerto Rico

Compliance

We have audited the compliance of Institute of Forensic Sciences 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, 2007. Institute of Forensic Sciences' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Institute's management. Our responsibility is to express an opinion on Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Institute of Forensic Sciences' 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 on Institute of Forensic Sciences' compliance with those requirements.

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as questioned costs as item 07-1 and 07-3.

Internal Control over Compliance

The management of Institute 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 Institute's internal control over compliance with 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 Institute's internal control over compliance.

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

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

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

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

This report is intended solely for the information and use of the Institute's management, audit committee, and the 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
June 15, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2459235 was affixed
To the original of this report.



**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the basic financial statements of the Institute of Forensic Sciences.
- b. There were no significant deficiencies on internal controls over financial reporting.
- c. No instances of noncompliance material to the financial statements of Institute of Forensic Sciences were disclosed during the audit.
- d. There were no significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance with requirements applicable to federal award programs for Institute of Forensic Sciences expressed an unqualified opinion.
- f. Audit findings relative to the major federal award programs for the Institute of Forensic Sciences are reported in number 3 of this schedule.
- g. The programs tested as major programs included:

Forensic Casework DNA Backlog Reduction Program - CFDA 16.743
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Institute of Forensic Sciences was determined to be a low-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

a. Forensic Casework DNA Backlog Reduction Program - CFDA No. 16.743

• **Condition 07-1 - Equipment and Real Property Management**

The Institute has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

Criteria

As per 28CFR, Part 66.32(4)(d) property records shall be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

Cause

The Institute does not maintain separate records for acquisitions and dispositions for property acquired with federal awards.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Effect

The Institute is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

Recommendation

The Institutes' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Questioned Costs

\$ -0-

• **Condition 07-2 - Cash Management**

The Institute' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

Criteria

The 31CFR 205.11 (a) and (b) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Institute does not keep adequate cash forecasting procedures because the Institute has requested and received federal funds in excess of its immediate needs.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Effect

The continued occurrence of this condition may expose the Institute to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.

Recommendation

The Institute should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Questioned Costs

\$ -0-

b. All Federal Programs

• **Condition 07-3**

The Institute does not have a program in place to comply with the deadlines established by federal law for the submission of Single Audit reports. As a result, the Institute did not comply with the required submission date of the Single Audit for the fiscal year ended June 30, 2007. The due date for this report was no later than March 31, 2008.

Criteria

OMB Circular A-133, Subpart C, Section 320 establishes that all audits should be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period.

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cause

Due to the failure to ensure that adequate accounting records exist and that the timely and accurate closing of books occurs, management did not comply with the requirements established in OMB Circular A-133.

Effect

The Institute could be exposed to a reduction or elimination of funding by the federal awarding agencies.

Recommendation

The Accounting and Finance Division should establish processes that enable compliance with aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit. This will enable the Institute to be in compliance with the reporting requirements established by applicable regulations.

Questioned Costs

\$ -0-

**COMMONWEALTH OF PUERTO RICO
INSTITUTE OF FORENSIC SCIENCES
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

06-1 Byrne Formula Grant Program, CFDA No. 16.579

The Institute has deficiencies in the execution or property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

*Situation still prevails.

06-2 Byrne Formula Grant Program, CFDA No. 16.579

The Institute's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

*Situation still prevails.

05-1 Byrne Formula Grant Program, CFDA No. 16.579

The Institute has deficiencies in the execution or property management procedures. During our test of real property and equipment management, we found that the Institute does not perform a reconciliation of the physical inventory with the accounting records. In addition, the Institute does not maintain a separate property ledger for all equipments acquired with federal funds.

*Situation still prevails.

05-2 Byrne Formula Grant Program, CFDA No. 16.579

The Institute's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.

*Situation still prevails.

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



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INSTITUTO DE CIENCIAS FORENSES
CALL BOX 11878 CAPARRA HEIGHTS STATION
SAN JUAN PR 00922-1878
Teléfono (787)765-0615

CORRECTIVE ACTION PLAN

July 19, 2009

Cognizant or Oversight Agency for Audit:

The Institute of Forensic Sciences respectfully submits the following corrective action plan for the year ended June 30, 2007.

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 7

The findings from the June 30, 2007 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings: Federal Award Program Audits, Department of Justice

Finding 07-01: Forensic Casework DNA Backlog Reduction Program-CFDA No. 16.743

Reportable Condition: See Condition 07-01

Recommendation

The Institutes' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Action Taken

The Institutes' management will be determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up inventory discrepancies. In addition, the Institute's management will be reviewing all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Finding 07-02: Forensic Casework DNA Backlog Reduction Program – CFDA No. 16.743

Reportable Condition: See Condition 07-02

Recommendation

The Institute should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Action Taken

The Institute was modified the cash forecasting process by established a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds will be only requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

Finding 07-03: All Federal Programs

Reportable Condition: See Condition 07-03

Recommendation

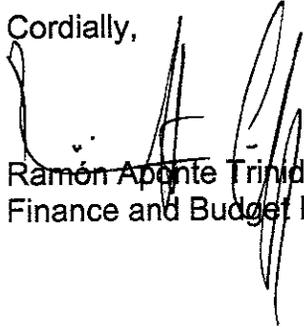
The Accounting and Finance Division should establish processes that enable compliance with aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit. This will enable the Institute to be in compliance with the reporting requirements established by applicable regulations.

Action Taken

The Accounting and Finance Division will be establish processes that enable compliance with aggressive monthly closing schedules and improve its year-end closing procedures to allow for the timely performance of the Single Audit.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Ramón Aponte Trinidad, Finance and Budget Director, at (787) 765-0615, ext. 500 and 501.

Cordially,

A handwritten signature in black ink, appearing to be 'RAMON APONTE TRINIDAD', written over the printed name.

Ramón Aponte Trinidad
Finance and Budget Director