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**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

SINGLE AUDIT
YEAR ENDED JUNE 30, 2011

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

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INDEPENDENT AUDITORS' REPORT

Commonwealth of Puerto Rico
Administration of Correction
San Juan, Puerto Rico

We have audited the accompanying schedule of cash receipts and disbursement activities of the Commonwealth of Puerto Rico Administration of Correction ("AOC") for the fiscal year ended June 30, 2011. The schedule of cash receipts and disbursement activities is the responsibility of the AOC's management. Our responsibility is to express an opinion on the statement of cash receipts and disbursements activities 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cash receipts and disbursement activities is free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AOC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash receipts and disbursement activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule of cash receipts and disbursement activities presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, AOC prepares its schedule of cash receipts and disbursement activities for its governmental activities on a cash receipts and disbursements basis (cash basis) of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the schedule of cash receipts and disbursement activities of the AOC is intended to present the cash receipts and cash disbursements of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the AOC. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

In our opinion the schedule of cash receipts and disbursement activities presents fairly, in all material respects, the results of the cash receipts and disbursements activities of the Commonwealth of Puerto Rico Administration of Correction, for the fiscal year ended June 30, 2011, in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report, dated December 22, 2011, on our consideration of the AOC's internal control over financial reporting and on 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages 4 to 5 is not a required part of the schedule of cash receipts and disbursement activities but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the schedule of cash receipts and disbursement activities of AOC taken as a whole. The 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 schedule of cash receipts and disbursements activities. The schedule of expenditures of federal awards is the responsibility of AOC's management and was derived from and relate directly to the underlying accounting and other records used to prepare the schedule of cash receipts and disbursements activities. The information has been subjected to the auditing procedures applied in the audit of the statement of cash receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statements of cash receipts and disbursements or to the schedule of cash receipts and disbursements activities themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the schedule of cash receipts and disbursements activities taken as a whole.

Guzmán, Torres Castro & Díaz, CPAs PSC

CERTIFIED PUBLIC ACCOUNTANTS
December 22, 2011

Stamp # 2636309
was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

(Unaudited)

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

As management of the Commonwealth of Puerto Rico Administration of Correction (“AOC”), we offer readers of the annual financial report, our discussion and analysis of the AOC’s financial performance during the fiscal year ended June 30, 2011. The management’s discussion and analysis is designed to assist the reader in understanding the AOC’s operations and should be read in conjunction with the schedule of cash receipts and disbursement activities, which follows this section.

The financial report consists of two parts: management’s discussion and analysis (this section), and the schedule of cash receipts and disbursement activities including notes to the financial statement.

- The schedule of cash receipts and disbursement activities presents the cash receipts and disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the AOC.
- The report also includes notes to the schedule of cash receipts and disbursement activities section that explains some of the information in the schedule of cash receipts and disbursement activities and provides more detailed data.

The AOC utilizes the cash basis of accounting to account for all programs administered. Under this method, revenue received is recognized as cash or funds are transferred-in, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the schedule of cash receipts and disbursement activities is not intended to present the AOC’s results of operations in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

AOC receives state funds and federal awards to finance its operations and to carry out certain programs and activities as follows:

State Funds:

These funds basically consist of legislative appropriations received from the Commonwealth of Puerto Rico. During the year ended June 30, 2011 total state funds disbursed amounted to approximately \$348 million.

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MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

(Unaudited)

Federal Awards:

Federal awards are received from different Federal agencies and are restricted to finance certain of AOC program costs. Total federal funds disbursed during the year amounted to \$966,000.

CONTACTING THE AOC'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the AOC's cash receipts and disbursements and to demonstrate the AOC's accountability for the money it receives. If you have question or need additional financial information, contact the Commonwealth of Puerto Rico Administration of Correction, PO Box 71308, San Juan, Puerto Rico 00936.

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**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Cash Receipts	Cash Disbursements	Net
State Funds:			
Annual appropriations from the Commonwealth of Puerto Rico	\$ 347,478,304	\$ 347,478,304	\$ -
Payment of note payable and related interest	298,759	298,759	
Business Type Activities:			
Inmate merchandise stores and license plate factory	5,894,212	5,895,736	(1,524)
Federal Funds:			
U.S Department of Justice	1,129,405	831,047	298,358
U.S Department of Education	143,569	135,086	8,483
Total	<u>\$ 354,944,249</u>	<u>\$ 354,638,932</u>	<u>\$ 305,317</u>

COMMONWEALTH OF PUERTO RICO
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NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Administration of Correction of the Commonwealth of Puerto Rico (AOC) was created by Law No. 116 of July 22, 1974 as amended, of the Commonwealth of Puerto Rico. The AOC provides custody and treatment to individuals sentenced to imprisonment by a Court of Justice. Among others, the services provided by AOC include counseling, orientation and specialized treatment, auxiliary alimentary services, clothing, lodgment, medical, academic education, vocational and recreation.

The activities of AOC are divided in the following programs:

Management and support - This program covers management of the Agency through an Administrator, Sub-administrator and Program directors. It provides advisory services and support through the Legal Affairs Office, Discipline Office, Community Relations, Budget and Finance, Personnel, Monitoring and Compliance, Administrative Services Area, Administrative Investigations and the Administrative Remedy for prisons program.

Penal Institutions - The penal institutions program is responsible to accept and offer services to citizens that enter a penal institution as inmates, who cannot provide the bail imposed by court, or sentenced to prison terms. AOC guarantee prisoners their constitutional rights, principally the right to live, access to the courts and legal representation and to receive a fair and human treatment.

Also, this program establish and develop programs and services for the inmate correctional population to propitiate and motivate a change process in their behavior to obtain their rehabilitation and be reinstated to the free community, so they can develop as useful and responsible citizens. Services offered under this program include counseling, recreation, and spiritual guidance in coordination with the Mental Health Services Administration and Against Addiction, services for mental health evaluation and treatment of prisoner addicted to drug and alcohol

AOC operates various penal institutions throughout Puerto Rico including 4 that are operated by private entities under management contracts

Psychosocial Evaluation Program - This program offers services of evaluation and treatment to the correctional population members. The purpose of this program is to increase the possibility of social adjustment and adaptation during the stay in the correctional system and foster personal development and growth.

Conservation and Engineer Program - This program directs all efforts in the maintenance and repair of penal institutions. It also provides guidance to comply with standards for

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011**

hygiene and life conditions at the institutions in accordance with an approved environmental plan.

Community Program - This program manages the Electronic Supervision Project and Reciprocity Agreement in The United States and Virgin Islands. The services are directed to courts of Puerto Rico and the Parole System. The Community area is composed by the Director's Office and 13 local offices.

Facilities Management Office (FMO) - The Program is engaged in the improvement and construction of facilities according to a court approved work plan. It was created to comply with a court stipulation in the Morales Feliciano Civil Lawsuit.

Enterprise Activities - Enterprise activities consist of the inmate stores and the license plate factory. As part of its rehabilitation services to the inmate community, AOC has general merchandise stores where inmates can purchase articles for its personal use. In addition, the AOC's has a factory that manufactures motor vehicles license plates. Currently, all production is sold to the Department of Transportation and Public Works of the Commonwealth of Puerto Rico. All direct labor required to manufacture the license plates is provided by inmates.

Basis of Presentation

AOC's schedule of cash receipts and disbursement activities has been prepared in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received or transferred-in and expenditures are recorded when the related disbursement is incurred or transferred-out. The accounts of the AOC are accounted for with a set of accounts, which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

Statutory (Budgetary) Accounting and Budgetary Control

Formal budgetary accounting is employed as a management control for all programs of the AOC. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Commonwealth of Puerto Rico Legislature and amended as required through the year. All unencumbered budget appropriations of local funds lapse three years after the end of each fiscal year. Federal grant funds can be carried over for a specified amount of time, upon request to and approval by the Federal Agencies.

The schedule of cash receipts and disbursement activities is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Compensated absences

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

Risk financing

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

2. RESTRICTED DEPOSITS

By court stipulation under Morales Feliciano legal case (Civil Case 79-4 PG) AOC is required to maintain a restricted cash account in the amount of \$20 million. The funds in this account are used to assure compliance with the stipulations contained in the ongoing legal case. All withdrawals from this account must be approved by a court monitor and must be replenished within 90 days of the disbursement. At June 30, 2011 this account is under the custody of the Secretary of the Treasury of the Commonwealth of Puerto Rico.

The Environmental Protection Agency filed a complaint against AOC (Civil Action No 90-2119) for alleged violations of the Environmental Act. As result of this case AOC is required to maintain an escrow deposit in the amount of \$3 million plus accrued interest to assure compliance with remedial actions to be executed by AOC, as well as for potential penalties arising in case of non-compliance. At June 30, 2011, the balance in this account is approximately \$3.2 million and is maintained in a commercial bank under the custody of the Department of Correction and Rehabilitation of the Commonwealth of Puerto Rico.

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011**

3. RESOURCES WITH FISCAL AGENT

The funds of the AOC from legislative appropriations and federal grants are under the custody of the Secretary of Treasury of the Commonwealth of Puerto Rico, pursuant to Act No. 230 of July 23, 1974, as amended, known as the "Accounting Law of the Commonwealth of Puerto Rico". The Department of Treasury of the Commonwealth of Puerto Rico follows the practice of pooling resources under the custody of the Secretary of the Treasury. Those portions of funds of AOC are pooled in appropriation accounts and are available to meet the AOC's current operating requirements

4. COMMITMENTS AND CONTINGENCIES

Operating Leases

AOC leases administrative and penal facilities and certain equipment under operating leases agreements, at various terms and conditions. The leases for the administrative and penal facilities are with the Public Building Authority, a public corporation of the Commonwealth of Puerto Rico. Rental expenditures paid during the year ended June 30, 2011 amounted to approximately \$27 million.

Future operating lease commitments are scheduled as follows:

Year ending	Amount
June 30,	
2012	27,236,000
2013	24,802,000
2014	23,578,000
2015	12,228,000
2016-2021	64,680,000
2022-2025	40,195,000
Total	<u>192,719,000</u>

Litigation

The Commonwealth of Puerto Rico's Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors, mayors, and other may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund. However, the Secretary of the Treasury of the

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011**

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

AOC is, at present, defendant in a number of lawsuits arising out of, and incident to its operations. The information as to the claims and related amounts has been produced by Department of Justice of the Commonwealth of Puerto Rico in order to determine the extent and status of such legal actions. However, as explained above the outcome of such litigation has no impact on AOC's budget, because amounts are paid through the general fund of the Commonwealth of Puerto Rico.

Federal Awards

AOC participates in a number of federal award programs. Expenditures financed by grants are subjected to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. AOC's management believes, based on prior experience that the amount of expenditures, which may be disallowed by the granting agencies from such audits if any, would not be material in relation to the operations of AOC.

5. RETIREMENT PLAN

Substantially all the AOC's employees participate in the Retirement System of the Commonwealth of Puerto Rico ("the System"), a cost sharing multi-employer defined benefit pension plan. The payroll for employees covered by the System for the year ended June 30, 2011 was approximately \$249 million.

All AOC's employees, who at the time of employment are 55 years old or less, are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to a retirement benefit, payable each month for life, computed based on a benefit rate set forth by Commonwealth statute.

The System also provides death and disability benefits established by Commonwealth statute. Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The AOC is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 1, 1951, which created the Retirement System, 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. Employees joining the Authority on or after January 1, 2001, will only be allowed to become members of System

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**NOTES TO SCHEDULE OF CASH RECEIPTS AND DISBURSEMENT ACTIVITIES
YEAR ENDED JUNE 30, 2011**

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 the System, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that takes into account each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) and investment income as defined in the Plan. 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.

Total employer contributions paid during the year ended June 30, 2011 under this plan amounted to approximately \$16 million.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011 and 2010, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

Federal Agency/Pass Through Entity/Program Name	Federal CFDA Number	Federal Expenditure
U.S Department of Justice		
Direct Programs:		
Statewide Automated Victim Information and Notification	16.740	\$ 471,192
Residential Substance Abuse Treatment for State Prisoners	16.593	<u>47,330</u>
Total direct programs		<u>518,522</u>
Pass through programs from Commonwealth of Puerto Rico Department of Justice:		
ARRA - Byrne Justice Assistance Grant	16.803	233,409
State Criminal Alien Assistance Program	16.606	33,171
Byrne Justice Assistance Grant	16.738	<u>45,945</u>
Total pass through programs		<u>312,525</u>
Total U.S. Department of Justice		<u>831,047</u>
U.S. Department of Education		
Pass through programs from Commonwealth of Puerto Rico Department of Education:		
Title 1 Program for Neglected and Delinquent Children	84.013A	126,641
National Foundation of the Arts and the Humanities State Library Program	45.310	<u>8,445</u>
Total U.S. Department of Education		<u>135,086</u>
Total Federal Expenditures		<u>\$ 966,133</u>

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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

General

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs of the Commonwealth of Puerto Rico Administration of Correction ("AOC"), an agency of the Commonwealth of Puerto Rico. AOC reporting entity is defined in Note 1 to the AOC's schedule of cash receipts and disbursement activities. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included in the schedule of expenditures of federal awards.

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting which is described in Note 1 to AOC's schedule of cash receipts and cash disbursements activities. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*.

Reconciliation to Financial Statements

Information reported in the accompanying schedule of expenditures of federal awards agreed with or has being reconciled to the information reported in AOC's schedule of cash receipts and disbursements activities.

Pass-Through Awards

AOC received its Federal Awards in the form of pass-through awards from certain agencies of the Commonwealth of Puerto Rico as identified on the Schedule.

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*

Commonwealth of Puerto Rico
Administration of Correction
San Juan, Puerto Rico

We have audited the schedule of cash receipt and disbursement activities of the Commonwealth of Puerto Rico Administration of Correction (“AOC”) for the year ended June 30, 2011, and have issued our report thereon dated December 22, 2011.

Our report on the schedule of cash receipt and disbursement activities disclosed that, as described in Note 1 to the schedule, AOC prepares its schedule of cash receipts and disbursement activities in accordance with the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, our report on the schedule of cash receipts and disbursement activities disclosed that the schedule of AOC is intended to present the cash receipts and cash disbursements of only that portion of the governmental activities of the Commonwealth of Puerto Rico attributable to the transactions of the AOC. It does not intend to, and does not present fairly the financial position and changes in financial position of the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 11-FS-01 to 11-FS-02 and 11-FS-05 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AOC'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-FS-04 and 11-FS-06.

This report is intended solely for the information of the AOC's management, Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Guzmán, Torres Castro & Díaz, CPA's PSC
CERTIFIED PUBLIC ACCOUNTANTS
December 22, 2011

Stamp # 2636310
was affixed to the original of this report.

**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**

Commonwealth of Puerto Rico
Administration of Correction
San Juan, Puerto Rico

Compliance

We have audited the Commonwealth of Puerto Rico Administration of Correction (AOC) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the AOC's major federal programs for the year ended June 30, 2011. The AOC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulation, contracts, and grants applicable to each of its major programs is the responsibility of Authority's management. Our responsibility is to express an opinion on Authority'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 AOC'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 Authority's compliance with those requirements.

As identified by the finding number and described in the accompanying schedule of findings and question costs, AOC did not comply with certain compliance requirements that are applicable to major federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for AOC to comply with requirement applicable to those major federal programs.

CFDA #	Federal Program	Compliance Requirement	Finding #
16.803	ARRA-Byrne Justice Assistance Grant	Reporting	11-SA-02
16.803	ARRA-Byrne Justice Assistance Grant	Equipment and real property management	11-SA-03
16.740	State Wide Automated Victim Information and Notification	Equipment and real property management	11-SA-03
16.740	State Wide Automated Victim Information and Notification	Cash management	11-SA-04
16.740	State Wide Automated Victim Information and Notification	Matching	11-SA-05

In our opinion, except for the noncompliance described in the preceding paragraph, AOC 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, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 11-SA-01.

Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-SA-01 to be material weaknesses.

This report is intended solely for the information of the AOC's management, Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Guzmán, Torres Castro & Díaz, CPA's P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
December 22, 2011

Stamp # 2636311
was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SECTION 1 – SUMMARY OF AUDITORS’ REPORT

1. The type of opinion issued in the financial statements	Unqualified
2. The independent accountants’ report on internal control over financial reporting described:	
a. Significant deficiencies noted considered material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	Yes
3. Noncompliance considered material to the financial statements was disclosed by the audit	Yes
4. The independent accountants’ report on internal control over compliance with requirements applicable to major Federal awards described:	
a. Significant deficiency noted considered to be a material weaknesses	Yes
b. Significant deficiency noted that is not considered to be a material weaknesses	No
5. The opinion expressed in the independent accountants’ report on compliance with requirements applicable to major Federal awards	Qualified
6. The audit disclosed findings to be reported in accordance with Section .510(a) of OMB Circular A-133	Yes
7. The AOC’s major program determined in accordance with OMB Circular A-133 are:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA No</u>
State Wide Automated Victim Information and Notification	16.740
AARA-Byrne Justice Assistance Grant	16.803
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133	\$300,000
9. Auditee qualified as a low risk auditee under section .530 OMB Circular a-133	No

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

**SECTION 2 - FINDINGS RELATING TO THE SCHEDULE OF CASH RECEIPTS AND
DISBURSEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Finding 11-FS-01 (Material Weakness)

Condition:

AOC depends on the information provided by the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) to prepare its statements of cash receipts and disbursements activities. However no reconciliation of the information provided by the Department of Treasury with AOC internal information and source documents is prepared by the accounting department.

Criteria:

Sound internal control policies should include procedures that require the timely reconciliation of accounting information with internal supporting data and documentation. Any differences or errors should be investigated and corrected.

Cause of condition:

No formal policies exist that requires the reconciliation of the accounting information provided by the Department of Treasury with AOC internal information and source documents. As the result it was difficult for AOC accounting personnel to provide the corrected schedule of cash receipts and disbursements for the year ended June 30, 2011.

Effect of condition:

Any error in the processing of AOC accounting data by the Department of Treasury will not be detected by AOC accounting personnel on a timely basis.

Recommendation:

Policies and procedures should be established that requires the timely reconciliation of the accounting information prepared and submitted by the Department of Treasury with its internal information and source documents. Lack of these policies and procedures does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Finding 11-FS-02 (Material Weakness)

Condition:

During our audit procedures in the payroll area, we noted that in certain instances human resources and payroll master files are not updated on a timely basis resulting in payments to employees that are in leave of absence or that no longer works for AOC.

Criteria:

Payroll payments should be made to employees for actual time worked.

Cause of Condition:

There are no controls that ensure timely communication between the field supervisor, human resources and payroll department on a timely basis. In certain instances, the payroll department learns that an employee is in leave of absence two or three months afterwards. As a result, as represented by management, approximately \$1,341,000 during the year ended June 30, 2011 was paid to employees in leave of absence or that longer worked for AOC.

Effect of Condition:

Payments are made to employees for time not worked resulting in improper use of funds.

Recommendation:

Controls and procedures should be established to assure that the status of each employee is current in the employee master file in order to avoid improper payroll payments and use of state funds. In addition procedures should be established that require timely communication by field supervisor to personnel and payroll department about the current status of each employee.

Finding 11-FS-03

Condition:

In certain cases, there is no indication approval for payment or checking of prices, extensions, footings of vendors' invoices as required by written policies and regulations.

Criteria:

Good internal control and procedures requires proper documentation of procedures performed such as approvals of vendor invoices for recording and payments.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Cause of condition:

Management has not consistently implemented written policies and procedures.

Effect of condition:

By not stamping vendor invoices as approved and as paid, AOC is exposed to pay for goods or services not received or to pay twice for the same goods or services.

Recommendation:

Policies and procedures should be established that require the stamp or cancellation of vendor invoices approved for payments and paid.

Finding 11-FS-04

Condition:

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, forms such as I9, psychology test, among others, are not included in the files. In addition, personnel evaluations are not current. In certain instances, last evaluations included in files date back to 1984 and 1992. In other instances the amount paid to the employee does not match the approved compensation in form OP-15.

Criteria:

Laws and regulations require that personnel files should be kept current and should include all required documentation.

Cause of condition:

Not proper implementation of laws and regulations.

Effect of condition:

By not keeping personnel files current, AOC is exposed to penalties in case of legal claims. In addition AOC is not in compliance with current laws and regulations.

Recommendation:

Procedures should be implemented to assure that all personnel files are current and complete in accordance with laws and regulations.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Finding 11-FS-05 (Material Weakness)

Condition:

During our test of the Schedule of Federal Awards (“SEFA”) we noted that the SEFA was prepared using information provided by the Department of Treasury of the Commonwealth of Puerto Rico (“Treasury Department”) which was not reconciled with records prepared by AOC. As the result in certain instances the amounts of the expenditures were not properly reflected in the SEFA and in other cases the amounts presented were not complete.

Criteria:

Good internal control procedures should include processes to verify and review the accuracy and completeness of financial information.

Cause of Condition:

Accounting records maintained by AOC are informal and are not reconciled on a timely basis with financial information provided by the Treasury Department. In addition AOC does not have trained personnel with the knowledge to retrieve information from the Puerto Rico Treasury Department Integrated Accounting System (“PRIFAS”). Therefore AOC depends on information submitted by personnel from the Treasury Department to prepare its financial records.

Effect of Condition:

There is a risk that federal expenditures reported on the SEFA are inaccurate.

Recommendation:

Process should be in place that will ensure the accuracy and completeness of the reporting of the federal expenditures. This process should include a system that is designed to allow for separate recording and tracking of federal and non-federal expenditures. In addition personnel with the proper training and experience should review federal expenditures and verify that the SEFA is reported correctly.

Finding 11-FS-06

Condition:

In a sample of 40 payroll transactions, we found that in 2 cases the social security withheld was computed using the wrong rate.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Criteria:

The law requires that social security be withheld at rates established in the law.

Cause of Condition:

Social security rate was not adjusted in January 2011 when it changed according to the law.

Effect of Condition:

Non compliance with social security law. In addition DCR could be exposed to penalties in case of a tax audit.

Recommendation:

Procedures should be implemented that assure that payroll computer software is kept up to date with changes in tax laws.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SECTION 3 – FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Finding 11-SA-01 (Material Weakness)

Federal Program:

16.803 ARRA-Byrne Justice Assistance Grant
16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S Department of Justice

Compliance Requirement:

N/A

Reporting Requirement:

Material weakness in internal control over a major Federal program

Condition:

See finding 11-FS-01. This finding relates to material weakness in internal control over a major Federal program required to be reported under the OMB Circular A-133.

Finding 11-SA-02

Federal Program:

16.803 ARRA-Byrne Justice Assistance Grant

Federal Grantor:

U.S Department of Justice

Pass-Through Entity

Department of Justice of the Commonwealth of Puerto Rico

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Compliance Requirement:

Reporting

Reporting Requirement:

Material non-compliance in relation to a compliance requirement.

Condition:

As part of the agreement with the Department of Justice of the Commonwealth of Puerto Rico ("Department of Justice"), AOC is required to submit certain financial and performance report on specified due dates. The information in these reports is utilized by the Department of Justice to submit the reports to the U.S Department of Justice in accordance with program laws and regulations.

During our review we noted that in certain instances these reports were submitted late and in other instances no evidence was submitted for our review that indicates that the reports were submitted as required. In certain cases the reports were submitted more than 50 days after the report due date.

Criteria:

Program laws and regulations as well as the agreement with the Department of Justice establish certain reporting and other requires that AOC should comply at all times.

Cause of Condition:

There is no proper supervision to assure compliance with program laws and regulations at all time.

Effect of Condition:

AOC is not in compliance with program laws and regulations which could result is disallowance of expenditures claimed under the program in the future or may be exposed to claims by U.S. Department of Justice.

Recommendation:

Policies and procedures should be established to ensure that federal awards compliance requirements are always adhered to. These policies should include proper supervision of the personnel is charge of submitting the reports to assure compliance at all times.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Finding 11-SA-03

Federal Program:

16.803 ARRA-Byrne Justice Assistance Grant
16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S Department of Justice

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement.

Condition:

AOC does not maintain a detailed capital asset ledger but maintain a list of the equipment acquired with federal funds in an Excel spreadsheet.

Criteria:

Preparation of detailed capital asset records aids in the accounting of property disposals, substantiates insurance claims, provides information for the calculation of depreciation and provides control for the safeguarding of capital assets. In addition federal regulations require that a capital asset ledger be prepared for all assets acquired with federal funds and that a physical inventory of such assets be made at least every two years

Cause of condition:

AOC does not have a policy in place that requires the preparation of detailed capital assets records and the related reconciliation with the general ledger.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Effect of condition:

Capital assets are not properly safeguarded exposing such assets to loss or improper use. In addition, lack of capital asset detail records could result in misstatements in depreciation and in the accounting of disposals during the year. Also lack of such record results in non compliance with federal regulations

Recommendation:

AOC should adopt a policy requiring the preparation and maintenance of a detail capital assets ledger. This ledger should be reconciled to the general ledger on a monthly basis and should provide as a minimum the following information:

- Description of the asset or tag number and location
- Acquisition cost and date of acquisition
- Amount of the acquisition cost paid with Federal funds
- Assigned life and method of depreciation
- Depreciation taken on an annual basis and accumulation thereof

Finding 11-SA-04

Federal Program:

16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S. Department of Justice

Compliance Requirement:

Cash management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Condition

In certain instances, with respect to the above mentioned federal program, AOC does not have appropriate procedures to minimize the time elapsing between the transfer of funds and its disbursement. In certain instances we noted that the disbursement was made after 10 days of the receipt of the federal funds.

Criteria:

Recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. In accordance with guidance in Office of the Chief Financial Officer of the U.S. Department of Justice, the disbursement should be made after 10 days of the receipt of the federal funds.

Cause of condition:

Internal control procedures related to the processing of the invoices for payments takes more time than estimated resulting in disbursements made after 10 days of receipts of federal funds.

Effect of condition:

Federal agencies could claim reimbursement of federal funds not used in accordance with program laws and regulations.

Recommendation:

Policies and procedures should be established to ensure that federal awards cash management compliance requirement is always adhered to. Internal control should be strengthened to assure that federal expenses are paid before the request for reimbursement from federal agencies.

Finding 11-SA-05

Federal Program:

16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S. Department of Justice

Compliance Requirement:

Matching

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Reporting Requirement:

Material non-compliance in relation to a compliance requirement.

Condition

AOC provides the matching required by the program with services provided by AOC personnel to the program. AOC considers 100% of the compensation paid to certain employees to meet the program matching requirement.

Criteria:

Program laws and regulations require a 50% matching for each U.S federal dollars received. This matching could be provided in kind with services from the entity's personnel assigned to the program, facilities and other as defined in program laws and regulations.

Cause of condition:

Although the employees assigned to the program to cover the matching requirement perform functions allowed by program laws and regulation, AOC does not prepare an analysis of the time these employees devote to program activities, but assume that 100% of the employee time was worked in program related activity when in fact employees perform program and not program related activities.

Effect of condition:

AOC might not be in compliance with program matching requirement since there is no evidence of the time the employee works in program related activity.

Recommendation:

Control procedures should be establish that requires that an employee documents the time he/she works in program and non-program related activities in order to properly document compliance with program matching requirements.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Finding: 10-SA-01

Federal Program:

16.606 State Criminal Alien Assistance Program
16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S Department of Justice

Compliance Requirement:

N/A

Reporting Re:

Material weakness in internal control over a major Federal program

Condition:

AOC depends on the information provided by the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) to prepare its statements of cash receipts and disbursements activities. However no reconciliation of the information provided by the Department of Treasury with AOC internal information and source documents is prepared by the accounting department.

Status of Corrective Action:

Not implemented. See finding 11-SA-01.

Finding 10-SA-02

Federal Program:

16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S Department of Justice

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Compliance Requirement:

Reporting

Reporting Requirement:

Material non-compliance in relation to a compliance requirement.

Condition:

During our analysis of the quarterly government reports necessary to meet compliance requirement, we noted that December report was not filed on its due date as specified in the regulation.

Status of Corrective Action:

Not implemented. See finding 11-SA-03.

Federal Program:

16.606 State Criminal Alien Assistance Program
16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S Department of Justice

Compliance Requirement:

Equipment and real property management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement and significant deficiency in internal control over a major federal program

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Condition:

AOC does not maintain a detailed capital asset ledger and has not performed a physical inventory of its capital assets acquired with federal funds during the past years as required by federal regulations.

Status of Corrective Action:

Not implemented. See finding 11-SA-04.

Federal Program:

16.740 Statewide Automated Victim Information and Notification

Federal Grantor:

U.S. Department of Justice

Compliance Requirement:

Cash management

Reporting Requirement:

Material non-compliance in relation to a compliance requirement and significant deficiency in internal control over a major federal program

Condition

In certain instances, with respect to the above mentioned federal program, AOC does not have appropriate procedures to minimize the time elapsing between the transfer of funds and its disbursement. In other cases when the program is on a reimbursement basis the transfer of funds are requested before the related disbursement is made.

Status of Corrective Action:

Not implemented. See finding 11-SA-05.

Federal Program:

16.606 State Criminal Alien Assistance Program

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Federal Grantor:

U.S. Department of Justice

Compliance Requirement:

Activities allowed or unallowed

Reporting Requirement:

Material non-compliance in relation to a compliance requirement and material weakness in internal control over a major federal program

Condition

AOC use funds received under federal program 16.606 to cover expenditures of other federal programs

Question Cost:

\$81,820

Status of Corrective Action:

No similar instances were noted during the year ended June 30, 2011 single audit. However the question cost has not being corrected and is pending final determination from the U.S Department of Justice.

Finding 10-SA-06

Federal Program:

16.606 State Criminal Alien Assistance Program

Federal Grantor:

U.S. Department of Justice

Compliance Requirement:

N/A

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Reporting Requirement:

Significant deficiency in internal control over a major federal program

Condition:

AOC does not request the approved funds granted by U.S. Department of Justice under federal program 16.606 "*State Criminal Alien Assistance Program*". During the current fiscal year AOC requested and expended the funds granted under this program during fiscal years 2007 and 2008 and of the end of the audit funds granted during fiscal year 2009 were not requested and therefore has not being received.

Status of Corrective Action:

No similar instances noted during the year ended June 30, 2011 single audit. Therefore finding is considered closed.

Finding: 09-SA-01

Federal Program:

16.593 Residential Substance Abuse Treatment for State Prisoners
16.738 Edward Byrne Memorial Justice Assistance Grant Program
17.255 Adult, Youth and Dislocated Worker

Federal Grantor:

U.S Department of Justice
U.S Department of Labor

Compliance Requirement:

N/A

Reporting Requirement:

Material weakness in internal control over a major Federal program

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Condition:

AOC depends on the information provided by the Department of Treasury of the Commonwealth of Puerto Rico (Treasury Department) to prepare its statements of cash receipts and disbursements activities. However no reconciliation of the information provided by the Department of Treasury with AOC internal information and source documents is prepared by the accounting department.

Status of Corrective Action:

Not implemented. See finding 11-SA-01.

Finding 09-SA-02

Federal Program:

16.738 Edward Byrne Memorial Justice Assistance Grant Program

Federal Grantor:

U.S Department of Justice

Pass-through Entity:

Commonwealth of Puerto Rico Department of Justice

Compliance Requirement:

Reporting

Condition:

During our analysis of the quarterly government reports necessary to meet compliance requirement, we noted that four of the reports for the year had been submitted after the stipulated dates as established by the regulation 28CFR and the Cooperative Agreement between Department of Justice of the Commonwealth of Puerto Rico and Administration of Correction. The condition was that the required financial reports of the grants: 2006DJBX0063-CD, 2006DJBX0063-K9, 2006DJBX0063-RC, and 2007DJBX0108-GE were submitted after the due date.

In addition the financial status report prepared and filled during the year ended June 30, 2009 shows a difference in total accumulated program cost of \$12,264 with the amount recorded by AOC.

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Status of Corrective Action:

Partially corrected for certain program. Similar items noted in current year. See finding 10-SA-02. In addition similar instances were reported during 2011 single audit in 11-SA-02 and 11-SA-03.

Finding 09-SA-03

Federal Program:

17.255 Adult Youth and Dislocated Worker

Federal Grantor:

U.S Department of Labor

Pass-through Entity:

Commonwealth of Puerto Rico Department of Labor

Compliance Requirement:

Reporting

Condition:

During our analysis of the monthly government reports necessary to meet reporting compliance requirement, we noted that the June report was not filed as established by the regulation.

Status of Corrective Action:

Partially corrected for certain programs. Similar items noted in current year. See finding 10-SA-02. In addition similar instances were reported during 2011 single audit in 11-SA-02 and 11-SA-03.

Finding 09-SA-04

Federal Program:

17.255 Adult Youth and Dislocated Worker

16.593 Residential Substance Abuse Treatment for State Prisoners

**COMMONWEALTH OF PUERTO RICO
ADMINISTRATION OF CORRECTION**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011**

Federal Grantor:

U.S Department of Labor
U.S. Department of Justice

Pass-through Entity:

Commonwealth of Puerto Rico Department of Labor

Compliance Requirement:

Cash management

Condition

In certain instances, with respect to the above mentioned federal programs, AOC does not have appropriate procedures to minimize the time elapsing between the transfer of funds and its disbursement. In other cases when the program is on a reimbursement basis the transfer of funds are requested before the related disbursement is made.

As an example of this condition, with respect to federal program number 17.255, a transfer of funds was received on June 9, 2009 in the amount of \$63,834. However the only disbursement identified with this reimbursement was on June 22, 2009 in the amount of \$4,924 resulting in excess cash transferred and unexpended at June 30, 2009 in the amount of \$58,910.

Status of Corrective Action:

Not corrected. See finding 10-SA-04 and 11-SA-05.