

**HUMAN RESOURCES AND OCCUPATIONAL
DEVELOPMENT COUNCIL**

**(A Component Unit of Puerto Rico Department
of Labor and Human Resources)**

BASIC FINANCIAL STATEMENTS AND
SINGLE AUDIT OF FEDERAL FINANCIAL
ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2011
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

Draft for discussion purposes only

**HUMAN RESOURCES AND OCCUPATIONAL
DEVELOPMENT COUNCIL**
(A Component unit of Puerto Rico Department of Labor and Human Resources)

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Draft for discussion purposes only

INDEPENDENT AUDITORS' REPORT

WIA State Board and Executive Director
Human Resource and Occupational Development Council
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 Human Resource and Occupational Council (“the Council”), a component unit of Puerto Rico Department of Labor and Human Resources (“the Department”) as of and for the year ended June 30, 2011, which collectively comprise the Council’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of Council’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.

As discussed in Note 1, the basic financial statements of the Council are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Department attributable to the transactions of the Council. It does not intend to, and does not present fairly the financial position and changes in financial position of the Department or the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

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 Council, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Draft for discussion purposes only

In accordance with Government Auditing Standards, we have also issued our report, dated October 3, 2011 on our consideration of the Council'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 3 through 7 and the Budgetary Comparison Schedules on pages 25 through 27 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Certified Public Accountants
October 3, 2011

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

**HUMAN RESOURCES AND OCCUPATIONAL
DEVELOPMENT COUNCIL**
(A Component unit of Puerto Rico Department of Labor and Human Resources)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

(Unaudited)

The following discussion and analysis of the financial performance and activity of the Human Resources and Occupational Development Council ("the Council"), a component unit of the Puerto Rico Department of Labor and Human Resources ("the Department"), provides an introduction and understanding of the basic financial statements of the Council for the fiscal years ended June 30, 2011. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Financial Highlights

Net assets deficiency at June 30, 2011 amounted to \$1,340,383

Net assets deficiency decreased by \$478,440 during the year ended June 30, 2011

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Council's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Council is improving or deteriorating.

The statement of activities presents information showing how the Council's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., vacation leave).

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like other state and local

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Unaudited)

governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Council are included in governmental funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Council's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Council maintains one individual governmental fund, the Special Revenue Fund, which is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

The special revenue fund accounts for all funds received under federal grants from the U.S. Department of Labor ("US DOL") and the Commonwealth of Puerto Rico. These funds are restricted for specific activities. The Council delegates funds to many agencies and municipalities of the Commonwealth of Puerto Rico, and has the obligation of monitoring the proper use of those funds by sub-recipients.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Council, liabilities of the Council's governmental activities exceeded assets by \$1,340,383 at June 30, 2011 as compared to the net assets deficiency of \$1,818,823 in June 30, 2010.

The largest portion of the Council's assets is the accounts receivable from federal grants. The largest portions of the Council's liabilities are amounts payable to subrecipients or suppliers related to services under federal awards received from US DOL.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

(Unaudited)

A condensed summary of the statement of net assets of the governmental activities of the Commission as the June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 20,838,663	\$ 27,624,586
Capital assets	<u>901,049</u>	<u>596,130</u>
Total assets	<u>\$ 21,739,712</u>	<u>\$ 28,220,716</u>
Current liabilities	\$ 20,558,013	\$ 27,089,190
Long-term liabilities	<u>2,522,152</u>	<u>2,950,349</u>
Total liabilities	<u>23,080,165</u>	<u>30,039,539</u>
Net Assets:		
Invested in capital assets, net of related debt	901,049	596,130
Unrestricted deficit	<u>(2,241,502)</u>	<u>(2,414,953)</u>
Total net assets	<u>(1,340,453)</u>	<u>(1,818,823)</u>
Total liabilities and net assets	<u>\$ 21,739,712</u>	<u>\$ 28,220,716</u>

Net assets serve as an indication of the Council's financial position at the end of the fiscal year. In the case of the Council total liabilities exceeded net assets by \$1,340,383 and \$1,818,822 at June 30, 2011 and 2010 respectively. The largest portion of the Commission's net deficiency corresponds to unrestricted net assets in both years.

Governmental activities decreased the Council's net assets deficiency by \$478,440 during the year ended June 30, 2011. A summary of the governmental activities during the years ended June 30, 2011 and 2010 follows:

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YEAR ENDED JUNE 30, 2011

(Unaudited)

	<u>2011</u>	<u>2010</u>
Program revenues:		
Operating grants and contributions	\$ 137,731,892	\$ 191,743,151
Expenses:		
Program direct expenses		
Workforce Investment Act	122,367,843	172,427,439
Puerto Rico Law 7 Voucher Program	6,668,901	4,860,083
Other programs	1,077,873	3,302,335
Administrative expenses	7,138,835	10,977,846
Total expenses	<u>137,253,452</u>	<u>191,567,703</u>
Change in net assets	478,440	175,448
Net assets (deficiency) at beginning of year	<u>(1,818,823)</u>	<u>(1,994,271)</u>
Net assets (deficiency) at end of year	<u>\$ (1,340,383)</u>	<u>\$ (1,818,823)</u>

Program revenues and operating grants consist of state funds allocation from the Commonwealth of Puerto Rico in the amount of approximately \$8,481,073 and federal awards received from the U.S. Department of Labor in the amount of \$129,250,819. Most of the Council's programs are financed with federal awards received from U.S. Department of Labor.

The Council main activity is the administration of federal funds received from the U.S. Department of Labor ("US DOL") under the Workforce Investment Act ("WIA") of 1998.

WIA reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Subtitle B programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment, thereby improving the quality of the workforce, reducing welfare dependency, and enhancing national productivity and competitiveness. Subtitle B Youth activities seek to increase attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

(Unaudited)

The Council passed-through to subrecipients most of the funds received from US DOL. These subrecipients, which consist of Municipalities of the Commonwealth of Puerto Rico and private entities, used these funds to provide direct services to eligible participants under the applicable federal program laws and regulations. Total funds passed-through to subrecipients during the years ended June 30, 2011 and 2010 amounted to approximately \$92,180,000 and \$144,624,000 respectively.

Council's administrative expenses are financed with principally with funds provided by WIA programs as permitted by laws and regulations. The funds allocated to administrative expenses are based on an US DOL approved percentage. Council's administrative expenses consist principally of salaries and related benefits, rent of facilities and other.

In addition as part of the Puerto Rico Law #7 known as "Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico", the Council was named as the agency that would administer a payment voucher program for eligible ex-governmental employees. Through this program eligible participants will be granted a special voucher benefit which entitles them to received one of the following benefits: post-secondary education, vocational education, relocation or business start-up.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons, and other interested parties with a general overview of the Council's finances and to demonstrate the Council's accountability for the money it receives. If you have question or need additional financial information, contact the Human Resources and Occupational Development Council, Finance Area, P.O. Box 192159 an Juan, Puerto Rico 00919-2159.

**HUMAN RESOURCES AND OCCUPATIONAL
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(A Component Unit of Puerto Rico Department of Labor and Human Resources)

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Assets:

Cash and cash equivalents	\$ 792,811
Receivables:	
U.S. Department of Labor	19,398,347
Voucher Program Law 7	418,913
Other	228,662
Capital assets net of accumulated depreciation	901,049
Total assets	<u>\$ 21,739,782</u>

Liabilities:

Bank overdraft	\$ 835,392
Accounts and accrued expenses payable	5,655,702
Due to subrecipients	13,998,484
Due to U.S Department of Labor	68,435
Long-term liabilities	
Compensated absences:	
Due within one year	1,224,880
Due in more than one year	1,297,272
Total liabilities	<u>23,080,165</u>

Net assets:

Invested in capital assets, net of related debt	901,049
Unrestricted (deficit)	<u>(2,241,432)</u>
Total net assets	<u>(1,340,383)</u>
Total liabilities and net assets	<u>\$ 21,739,782</u>

The accompanying notes are integral part of the financial statements

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(A Component Unit of Puerto Rico Department of Labor and Human Resources)

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
YEARS ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Programs direct expenditures:			
Workforce Investment Act Puerto Rico Law 7 Voucher Program	\$ 122,367,843	\$ 122,367,843	\$ -
Other programs	6,668,901	6,411,990	(256,911)
Administrative expenses	1,077,873	1,080,108	2,235
	7,138,835	7,871,951	733,116
Total governmental activities	<u>\$ 137,253,452</u>	<u>\$ 137,731,892</u>	
Change in net assets			478,440
Net assets (deficit):			
Beginning of year			(1,818,823)
End of year			<u>\$ (1,340,383)</u>

The accompanying notes are integral part of the financial statements

**HUMAN RESOURCES AND OCCUPATIONAL
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BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011

	Special Revenue Fund		
	Federal Awards	State Funds	Total
Assets:			
Cash and cash equivalents	\$ -	\$ 792,811	\$ 792,811
Accounts receivable:			
U.S. Department of Labor	19,398,347	-	19,398,347
Voucher Program Law 7		418,913	418,913
Due from (to) other funds	486,121	(486,121)	-
Other	13,342	215,320	228,662
Total assets	<u>\$ 19,897,810</u>	<u>\$ 940,923</u>	<u>\$ 20,838,733</u>
Liabilities:			
Bank overdraft	\$ 835,392	\$ -	\$ 835,392
Accounts and accrued expenses payable	4,993,147	662,555	5,655,702
Due to subreipients	13,998,484	-	13,998,484
Due to U.S Department of Labor	68,435	-	68,435
Total liabilities	<u>19,895,458</u>	<u>662,555</u>	<u>20,558,013</u>
Fund balances:			
Assigned	<u>2,352</u>	<u>278,368</u>	<u>280,720</u>
Total liabilities and fund balances	<u>\$ 19,897,810</u>	<u>\$ 940,923</u>	<u>\$ 20,838,733</u>

The accompanying notes are integral part of the financial statements

**HUMAN RESOURCES AND OCCUPATIONAL
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RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance for governmental funds \$ 280,720

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

Capital assets, net of accumulated depreciation, used in governmental
activities are not financial resources and, therefore, are not
reported in the funds 901,049

Long-term liabilities for compensated absences, are not due and payable
in the current period and, therefore are not reported in the funds (2,522,152)

Net asset (deficit) of governmental activities \$ (1,340,383)

The accompanying notes are integral part of the financial statements

**HUMAN RESOURCES AND OCCUPATIONAL
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(A Component Unit of Puerto Rico Department of Labor and Human Resources)

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	Special Revenue Fund		
	Federal Awards	State Funds	Total
Revenues:			
Grants from U.S Department of Labor Puerto Rico Law 7 Voucher	\$ 128,470,697	\$ -	\$ 128,470,697
Progran Grant	-	8,181,093	8,181,093
Other	780,122	299,980	1,080,102
Total revenues	<u>129,250,819</u>	<u>8,481,073</u>	<u>137,731,892</u>
Expenditures:			
Program direct expenditures:			
Workforce Investment Act Programs	122,367,843	-	122,367,843
Puerto Rico Law 7 Voucher Program	-	6,668,901	6,668,901
Other programs	780,198	297,676	1,077,874
Administrative expenses	6,102,848	1,769,103	7,871,951
Total expenditures	<u>129,250,889</u>	<u>8,735,680</u>	<u>137,986,569</u>
Net change in fund balances	(70)	(254,607)	(254,677)
Fund balances:			
Beginning of year	2,422	532,975	535,397
End of year	<u>\$ 2,352</u>	<u>\$ 278,368</u>	<u>\$ 280,720</u>

The accompanying notes are integral part of the financial statements

**HUMAN RESOURCES AND OCCUPATIONAL
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(A Component Unit of Puerto Rico Department of Labor and Human Resources)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net change in fund balance - total governmental funds \$ (254,677)

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

Governmental funds report capital outlay as expenditures.

However in the statement of activities, the cost of those assets is allocated over the estimated useful life as depreciation expense. In the current period the amount by which capital outlays exceed depreciation expense is as follows

Capital outlays	\$ 436,878	
Depreciation expense	<u>131,959</u>	304,919

Some items in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

These activities consist of:

Decrease in compensated absences		<u>428,198</u>
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Change in net assets governmental activities \$ 478,440

The accompanying notes are integral part of the financial statements

HUMAN RESOURCES AND OCCUPATIONAL DEVELOPMENT COUNCIL

(A Component unit of Puerto Rico Department of Labor and Human Resources)

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Human Resources and Occupational Development Council (“the Council”) is a component unit of Puerto Rico Department of Labor and Human Resources (“the Department”) created by the Law No. 97 of December 18, 1991. The Department is an agency of the Commonwealth of Puerto Rico.

The Council main activity is the administration of federal funds received from the U.S. Department of Labor (“US DOL”) under the Workforce Investment Act (“WIA”) of 1998.

WIA reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

Subtitle B programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment, thereby improving the quality of the workforce, reducing welfare dependency, and enhancing national productivity and competitiveness. Subtitle B Youth activities seek to increase attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

In addition as part of the Puerto Rico Law 7 known as “Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico”, the Council was named as the agency that would administer a payment voucher program for eligible ex-governmental employees. Through this program eligible participants will be granted a special voucher benefit which entitles them to received one of the following benefits: post-secondary education, vocational education, relocation or business start-up.

Reporting Entity

In determining its financial reporting entity, the Council has considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Council, or the significance of their relationship with the Council is such that exclusion would be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting

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NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Council. Based on the above criteria there are no potential component units, which should be included in the basic financial statements.

The basic financial statements of the Council are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Department attributable to the transactions of the Council. It does not intend to, and does not present fairly the financial position and changes in financial position of the Department or the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

Government Wide and Funds Financial Statements

The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments focuses on the Commission as a whole in the government-wide financial statements and major individual funds in the 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 of the non-fiduciary activities of the Council. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in Capital Assets, net of related debt - This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributed to the acquisition, construction or improvement of those assets.

Unrestricted Net Assets - This category represents net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses are reflected in the general government function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Fund Statements

The fund statements provide information about the Council's funds. Separate statements for each fund category are presented. The emphasis of the fund statements is on a major governmental fund, each displayed in a separate column.

The Council reports the following major governmental funds:

Special Revenue Funds – These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provide the funds, or by outside parties. This fund accounts for substantially all federal monies received by the Council and the monies received from the Commonwealth of Puerto Rico for Law 7 Vouchers Program.

The Governmental Accounting Standard Board ("GASB") has issued statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). This statement defines the type of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable such as a balance associated with inventories, prepaid and long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external sources providers, or through enabling legislation.

Committed fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the entities' highest level decision making authority.

Assigned fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all expendable amounts not contained in the other classifications.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Basis of Presentation

The accompanying financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have been prepared primarily from accounts maintained by the Council.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With the economic resources measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. 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 have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as they become susceptible to accrual; generally when they become both measurable and available. Revenues are generally considered to be susceptible to accrual when the underlying transaction takes place or when eligibility requirements are met. Major revenues that are determined to be susceptible to accrual include federal grants and contracts. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

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 at fiscal year-end and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

Receivables in the special revenue fund represent amounts owed to the Council for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

**HUMAN RESOURCES AND OCCUPATIONAL
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, net of accumulated depreciation and amortization. A capital asset is defined by the Council as an asset with an initial cost of more than \$5,000 and an estimated useful life of more than one year. Depreciation and amortization is computed on a straight-line method over the estimated useful life of the related asset. Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When property and equipment are disposed of, the cost and applicable accumulated depreciation and amortization are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives of the major classes of capital assets are as follows:

Equipment	10 years
Office furniture, equipment and fixtures	7 years
Vehicles	5-10 years

The Council periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.

Pension Costs

The Council's employees participate in the retirement system of the Commonwealth of Puerto Rico, a multiemployer cost sharing plan. Accordingly pension costs recorded in the accompanying financial statements equals the statutory required contributions with a liability recorded for any unpaid required contributions.

Vacation and Sick Leave

Compensated absences are accrued when earned by the employees. Employees may carryforward their compensated absences as permitted by statute and may settle them in a cash payment from the Council, if employment has ceased. The Council's employees accrued 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed.

The Council accrues the compensated absences liability when incurred in the government-wide financial statements. Vacation and sick leave pay are reflected as expenditure in the governmental fund financial statements when paid.

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Risk Financing

The Council carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Council has not settled any claims in excess of its insurance coverage during the past three years. The Council also pays premiums for workers compensation insurance to another component unit of the Commonwealth of Puerto Rico.

Recently Adopted GASB Statements

The Council has completed the process of evaluating GASB Statement No. 54, Fund Balance reporting and Governmental Fund Type Definitions. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The implementation of this GASB did not had a significant impact on the Council's financial statements.

The Council has completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, Financial Instruments Omnibus which is effective for fiscal years beginning after June 15, 2010. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Council has determined that GASB No. 59 will have no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation at the present time.

Recently Statements Issued by GASB

The GASB has issued Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans which is effective for fiscal years beginning after June 15, 2011. This statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions, and Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement clarifies actuarially determined OPEB measures reported by an agent multiple-employer OPEB plan and its participating employers. Those measures should be determined by a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirement. The Council has not yet determined the effect, if any, that the adoption of GASB 57 may have on its financial statements.

The GASB has also issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (SCA) which is effective for fiscal years beginning after December 15, 2011. The requirement of this statement improve financial reporting by establishing recognition, measurement and disclosure requirements for SCAs for both

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transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Council has not yet determined the effect, if any, that the adoption of GASB 60 may have on its financial statements.

The GASB has also issued Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34 which is effective for fiscal years beginning after December 31, 2011. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The Council has not yet determined the effect, if any, that the adoption of GASB 61 may have on its financial statements.

The GASB has also issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements which is effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's effort to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Council has not yet determined the effect, if any, that the adoption of GASB 62 may have on its financial statements.

The GASB has also issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position which is effective for fiscal years beginning after December 15, 2011. The Statement objective is to provide a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The Council has not yet determined the effect, if any, that the adoption of GASB 63 may have on its financial statements.

The GASB has also issued Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions which is effective for fiscal years beginning after June 15, 2011. The Statement will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the

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NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. The Council has not yet determined the effect, if any, that the adoption of GASB 64 may have on its financial statements.

2. Cash and Cash Equivalents

Cash at June 30, 2011 consist of cash deposited with the Government Development Bank for Puerto Rico ("GDB").

The Council is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Council may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. There are no investments at June 30, 2011.

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. Under Puerto Rico statutes public funds deposited in commercial bank must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth of Puerto Rico.

At June 30, 2011, the Council maintained cash deposited at the GDB, in the amount approximately \$815,023. These amounts are uncollateralized since by law, the governmental banks of the Commonwealth of Puerto Rico are exempt from the collateral requirement described above.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

3. Capital Assets

The activity in the Council's capital assets for the year ended June 30, 2011 is summarized below:

	<u>Balance at June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>
Governmental Activities:				
Assets being depreciated:				
Equipment	\$ 497,282	\$ 436,878	\$ (20,366)	\$ 913,794
Furnitures and fixtures	42,915	-	-	42,915
Motor vehicles	1,235,011	-	-	1,235,011
Total	<u>1,775,208</u>	<u>436,878</u>	<u>(20,366)</u>	<u>2,191,720</u>
Less accumulated depreciation	<u>1,179,078</u>	<u>131,959</u>	<u>(20,366)</u>	<u>1,290,671</u>
Capital assets being depreciated, net	<u>596,130</u>	<u>304,919</u>	<u>-</u>	<u>901,049</u>

4. Long-Term Liability

A summary of the activity in the long-term liability during the year ended June 30, 2011 follows:

	<u>Balance at 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 2011</u>	<u>Current Portion</u>
Compensated absences	\$ 2,950,349	\$ 335,577	\$ 763,774	\$ 2,522,152	\$ 1,224,880

5. Accounts and Accrued Expenses Payable

Accounts and accrued expenses payable includes amounts due to other governmental entities for payroll withholdings, program costs reimbursements and other services in the amount of approximately \$977,000.

In addition amounts due subrecipients consist principally of amounts to municipalities or consortium of municipalities of the Commonwealth of Puerto Rico for cost of services performed by such entities under the WIA and state programs.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

6. Retirement Plan

Substantially all the Council'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 \$10.9 million.

All of the Council'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 Council 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 Council on or after January 1, 2001, 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 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 during the year ended June 30, 2011 under this plan amounted to approximately \$618,383.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010 and 2009, a copy of which can be obtained from the Retirement System Administration, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

7. Commitments and Contingent Liabilities

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 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.

The Council is involved in litigation arising in the normal course of operations. The Council believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the Council's financial condition and results of operations.

Federal Assistance Programs

The Council is a recipient of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, or to compliance audits by grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Council expects such amounts, if any, not to be significant.

**HUMAN RESOURCES AND OCCUPATIONAL
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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2011

(Unaudited)

	Budget Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance July 1, 2010	\$ 95,298,496	\$ 95,298,496	\$ 105,960,695	\$ 10,662,199
Resources (Inflows)				
Grants and contributions:				
Work Investment Act	78,716,802	78,716,802	78,716,802	-
Other federal programs	218,722	218,722	218,722	-
Total resources (inflows)	78,935,524	78,935,524	78,935,524	-
Amount available for appropriation	174,234,020	174,234,020	184,896,219	10,662,199
Charges to appropriations (outflows)				
Work Investment Act	164,834,432	164,834,432	122,367,843	42,466,589
Other federal awards	1,498,125	1,498,125	780,198	717,927
Administrative expenses	7,901,463	7,901,463	6,102,848	1,798,615
Total charges to appropriations	174,234,020	174,234,020	129,250,889	44,983,131
Budgetary fund balance June 30, 2010	\$ -	\$ -	\$ 55,645,330	\$ 55,645,330

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REQUIRED SUPPLEMENTARY INFORMATION
STATUTORY/BUDGETARY RECONCILIATIONS
YEAR ENDED JUNE 30, 2011

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in United States of America (GAAP), a reconciliation of the differences of revenues and expenditures between budgetary and GAAP presentation.

The following schedule represents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Sources/Inflows of Sources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 184,896,219
Differences - Budget to GAAP	
The fund balance at beginning of the year is a budgetary resource but is not current year revenue for financial reporting purposes	(55,645,330)
Revenues for which no budget was approved during current year	<u>8,481,003</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 137,731,892</u>

Uses Outflows of Resources:

Actual amounts (budgetary) basis "total charges to appropriations" from the budgetary comparison schedule	\$ 129,250,889
Differences - Budget to GAAP	
Expenditures for which no budget was approved during the current year	<u>8,735,680</u>
Total expenditures as reported on the statement of revenue, expenditures and changes in fund balance - governmental fund	<u>\$ 137,986,569</u>

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NOTES TO SUPPLEMENTARY REQUIRED INFORMATION
YEAR ENDED JUNE 30, 2011

(Unaudited)

1. General Budgetary Policies and Procedures

The Council's principal annual budget is the WIA funds received for its use and distribution from the US DOL. These funds consist of the portion of the funds used for administration purposes, and the amounts passed-through to subrecipients such as Municipalities and other agencies of the Commonwealth of Puerto Rico. After the Council receives the notice of obligations from the US DOL, which officially authorized the use of WIA Funds, the Council prepares a budget that reflect the use of the WIA funds as authorized by US DOL in order to comply with WIA program laws and regulations.

2. Statutory (Budgetary) Accounting

The Council's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with generally accepted accounting principles ("GAAP"). The main difference between the budgetary basis and the GAAP basis used to present fund financial statements, is that under budgetary basis encumbrances (e.g. purchase orders) are recognized as expenditures while in the fund financial statements encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitment will be honored during the next fiscal year. There were no outstanding encumbrances at June 30, 2011.

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

Federal Grantor/Pass-Trough Grantor/ Program Title or Cluster Title	Federal CFDA Number	Federal Expenditures
US Department of Labor Direct Programs		
Cluster Programs		
WIA Adult Program	17.258	\$ 36,299,689
ARRA - WIA Adult Program	17.258	6,484,770
Youth Activities	17.259	32,929,592
ARRA - Youth Activities	17.259	7,716,201
Dislocated Worker	17.260	16,598,121
ARRA - Dislocated Worker	17.260	9,641,595
WIA Dislocated Worker Formula Grant	17.278	14,028,269
Workfore Investment Act (WIA) National Emergency Grants	17.277	4,772,461
Other Programs		
Trade Adjustment Assistance	17.245	741,091
Unemployment Insurance	17.225	23,475
Ticket to Work	N/A	15,625
Total expenditures of federal awards		\$ 129,250,889

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NOTES 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 Human Resources and Occupational Development Council (“the Council”), a component unit of Puerto Rico Department of Labor and Human Resources. The Council reporting entity is defined in Note 1 to the Council’s basic financial statements. 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 accrual basis of accounting which is described in Note 1 to the Council’s basic financial statements. 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 the Council’s basic financial statements.

Subrecipients

During the year ended June 30, 2011, the Council made payments of federal awards to subrecipients in the amount of approximately \$92,580,000.

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

Mr. Aurelio Gonzalez
Executive Director
Human Resources and Occupational Development Council
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 Human Resources and Occupational Development Council (“the Council”), a component unit of Puerto Rico Department of Labor and Human Resources (“the Department”), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 3, 2011.

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

Our report disclosed, as discussed in Note 1, the basic financial statements of the Council are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Department attributable to the transactions of the Council. It does not intend to, and does not present fairly the financial position and changes in financial position of the Department or the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council’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 Council’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Council'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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management of the Council, others within the government of the Commonwealth of Puerto Rico, 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.

Certified Public Accountants
October 3, 2011

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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**

Mr. Aurelio Gonzalez
Executive Director
Human Resources and Occupational Development Council
San Juan, Puerto Rico

Compliance

We have audited Human Resources and Occupational Development Council (“the Council”) 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 Council’s major federal programs for the year ended June 30, 2011. Council’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Council’s management. Our responsibility is to express an opinion on Council’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 Council’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 Council’s compliance with those requirements.

In our opinion, Council complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 are described in the accompanying schedule of findings and questioned costs as items 11-SA-01 and 11-SA-02.

Internal Control over Compliance

Management of Council 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 Council'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 Council's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

This report is intended solely for the information and use of the management of the Council, others within the government of the Commonwealth of Puerto Rico, U.S Department of Labor and other 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.

Certified Public Accountants
October 3, 2011

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**HUMAN RESOURCES AND OCCUPATIONAL
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SCHEDULE OF FINDINGS AND QUESTION 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	No
b. Significant deficiency noted that is not considered to be a material weaknesses	No
3. Noncompliance considered material to the financial statements was disclosed by the audit	No
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	No
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	Unqualified
6. The audit disclosed findings to be reported in accordance with Section .510(a) of OMB Circular A-133	No
7. The Commission’s major program were:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA No</u>
WIA Adult Program	17.258
WIA Dislocated Worker	17.260
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grant	17.278
Workforce Investment Act (WIA) National Emergency Grant	17.277
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133	\$3,000,000
9. Auditee qualified as a low risk auditee under section .530 OMB Circular a-133	No

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SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2011

**SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS
REREPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

No matters reported

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SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2011

SECTION 3 – FINDINGS AND QUESTION COSTS RELATING TO FEDERAL AWARDS

Finding 11-SA-01

Federal Program:

17.258 WIA Adult Program
17.259 Youth Activities
17.260 WIA Dislocated Worker
17.277 Workforce Investment Act (WIA) National Emergency Grant
17.278 WIA Dislocated Worker Formula Grant

Federal Grantor

U.S. Department of Labor

Compliance Requirement

Subrecipient monitoring

Reporting Requirement

Material non-compliance with a compliance requirement

Condition

During our test of subrecipient monitoring activities we noted the following:

1. Single audit report or program specific audit was not included in files of grants provided to private or commercial organization that spend more than the minimum required by OMB Circular A-133
2. Documentation about the Council test of the eligibility or participants in grants with private or commercial organizations was included in subrecipients monitoring files.

**HUMAN RESOURCES AND OCCUPATIONAL
DEVELOPMENT COUNCIL**
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SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2011

Criteria

WIA program laws and regulation requires that:

1. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).
2. Commercial organizations which are subrecipients under WIA title I and which expend more than the minimum level specified in OMB Circular A-133 must have either an organization-wide audit conducted in accordance with OMB Circular A-133 or a program specific financial and compliance audit (20 CFR section 667.200(b)(2)(ii)).

Cause of Condition

Contracts with private or commercial organizations contain a clause that requires a single audit or a program specific audit as required by program laws and regulations. However no follow-up is made to such organizations after the end of the contract about this requirement. In addition management understands that the private or commercial organizations are responsible for determining the eligibility of participants.

Effect of Condition

The Council is not in compliance with certain program laws and regulations.

Recommendation

Controls and procedure should be implemented to assure compliance with program laws and regulations detailed above. After the end of a contract with a private or commercial organization the Council should require the single audit report or the program specific program audit. Proper documentation should be included in the monitoring files about this requirement. Although private or commercial organization has prime responsibility for determining participants eligibility, the Council as part of its monitoring activities should document if the subrecipient complies with this requirement.

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SCHEDULE OF FINDINGS AND QUESTION COSTS
YEAR ENDED JUNE 30, 2011

Finding 11-SA-02

Federal Program:

17.258 WIA Adult Program
17.259 Youth Activities
17.260 WIA Dislocated Worker
17.277 Workforce Investment Act (WIA) National Emergency Grant
17.278 WIA Dislocated Worker Formula Grant

Federal Grantor

U.S Department of Labor

Compliance Requirement

Reporting

Reporting Requirement

Non-compliance with program compliance requirement

Condition

The Council is not in compliance with the Federal Funding Accountability Transparency Act (FFATA).

Criteria

FFATA was signed on September 26, 2006 to empower every American with the ability to hold the government accountable for each spending decision. Under FFATA prime awardees (i.e. prime contractors and prime grant recipients) awarded a federal contract or order is required to file a FFATA report by the end of the month following the month in which the prime awardees awards any subcontract greater than \$25,000. The FFATA Subaward Reporting System (FSRS) is the reporting tool Federal prime awardees use to capture and report subaward and executive compensation data regarding their first-tier subawards to meet the FFATA reporting requirements

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SCHEDULE OF FINDINGS AND QUESTION COSTS
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Cause of Condition

Management believes that the responsible entity for compliance with FFATA requirements is the Puerto Rico Department of Labor and Human Resources (“the Department”) and not the Council.

Effect of Condition

Council is not in compliance with program laws and regulations.

Recommendation

Council’s management should discuss this matter with the U.S Department of Labor to determine who is responsible for compliance with FFATA requirements since the Council is entity elected by the Department to manage all aspects of the WIA funds received by the Department.

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SCHEDULE OF PRIOR YEARS FINDINGS
YEAR ENDED JUNE 30, 2011

Audit findings that have been fully corrected

None

Audit findings not corrected or partially corrected

Fiscal Year 2009

Finding 2009-III-01 Cost Allocation Plan – The Council received a Final Determination for this finding which include a recommendation to sent the CAP prepared and implemented by the Council to US DOL. The Council is in the process of preparing the required documentation to submit the plan.

Fiscal Year 2010

Finding 2010-III-01 Reporting - The Council provided technical assistance to all local areas regarding the information items include on the SAC reports. The Council contracted a consulting firm to identify and propose corrective action to the data included on the programmatic reports. Also, the Council has been working with the PRDOLHR in the integration of the participants' databases for WIA, UI, ES, TAA, and other programs under one data. This process is still ongoing; the Council expects to complete the data revision and reporting issues to be solved during fiscal year 2011-2012.

Corrective Action taken is significantly different from corrective action previously reported:

None

Audit findings not longer valid

US DOL issued a final determination closing all open findings in prior years single audits except for audit finding 2009-III-01 explained above.