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**COMMONWEALTH OF PUERTO RICO
JUVENILE INSTITUTIONS ADMINISTRATION**

**STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS ACTIVITIES**

YEAR ENDED JUNE 30, 2011

**COMMONWEALTH OF PUERTO RICO
JUVENILE INSTITUTIONS ADMINISTRATION**

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INDEPENDENT AUDITORS' REPORT

Commonwealth of Puerto Rico
Juvenile Institutions Administration
San Juan, Puerto Rico

We have audited the accompanying Schedule of Cash Receipts and Disbursement Activities of the Commonwealth of Puerto Rico Juvenile Institutions Administration ("AIJ") for the fiscal year ended June 30, 2011. The Schedule of Cash Receipts and Disbursement Activities is the responsibility of the AIJ's management. Our responsibility is to express an opinion on the Statement of Cash Receipts and Disbursements 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 AIJ'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, AIJ 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 AIJ 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 AIJ. 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 Juvenile Institution Administration, 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 AIJ'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 to 4 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.

Guzmán, Torres Castro & Díaz, CPAs PSC
CERTIFIED PUBLIC ACCOUNTANTS
December 22, 2011

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was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
JUVENILE INSTITUTIONS ADMINISTRATION**

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

OVERVIEW OF THE AUDITED FINANCIAL STATEMENTS

As management of the Commonwealth of Puerto Rico Juvenile Institutions Administration (“AIJ”), we offer readers of the annual financial report, our discussion and analysis of the AIJ’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 AIJ’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 AIJ.
- 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 AIJ 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 AIJ’s results of operations in accordance with accounting principles generally accepted in the United States of America.

FINANCIAL HIGHLIGHTS

AIJ 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 used to finance AIJ’s operations. Total state funds disbursed during the year ended June 30, 2011 amounted to approximately \$61.4 million.

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MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011

Federal Awards:

Federal awards are received from different Federal agencies and are restricted for specific purposes related to the activities of AIJ. Total federal funds disbursed during the year ended June 30, 2011 amounted to \$493,000.

CONTACTING THE AIJ'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the AIJ's cash receipts and disbursements and to demonstrate the AIJ's accountability for the money it receives. If you have question or need additional financial information, contact the Commonwealth of Puerto Rico Juvenile Institutions Administration, PO Box 19175, San Juan, Puerto Rico 00910.

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

	Cash Receipts	Cash Disbursements	Net
State Funds:			
Funds allocated by the Commonwealth of Puerto Rico	\$ 61,474,041	\$ 61,474,041	\$ -
Federal Funds:			
Title 1 Program for Neglected and Delinquent Children	346,298	346,298	-
Other	<u>146,611</u>	<u>146,611</u>	<u>-</u>
Total	<u>\$ 61,966,950</u>	<u>\$ 61,966,950</u>	<u>\$ -</u>

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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 Juvenile Institutions Administration (AIJ) was created by Law number 154 of August 5, 1988. AIJ is a security agency for minors who have committed delinquent acts to society, and is responsible, among other things, to provide diagnostic, custody evaluation and rehabilitation service to delinquent minors. The operating activities of AIJ are related to the ones of the Department of Justice, Court System, Department of Education, Department of the Family and the Administration of Correction and Rehabilitation of the Commonwealth of Puerto Rico.

Basis of Presentation

AIJ'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 AIJ 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 AIJ. 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 AIJ'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. AIJ'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 AIJ. The AIJ reimburses the Commonwealth for premium payments made on its behalf. The AIJ'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 AIJ's employees.

2. LEASE COMMITMENTS

Operating Leases

AIJ has several operating lease agreements covering some of the administration's buildings and facilities, which generally have terms of one year or less, and are automatically reviewed based on availability of funds. Rent expense for the year ended June 30, 2011 amounted to approximately \$328,000.

3. CONTINGENCIES

Federal Awards

AIJ 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. AIJ'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 AIJ.

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

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.

AIJ 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 AIJ's budget, because amounts are paid through the general fund of the Commonwealth of Puerto Rico.

4. RETIREMENT PLAN

Substantially all the AIJ'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 years ended June 30, 2011 was approximately \$30 million.

All AIJ'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 AIJ 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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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 years ended June 30, 2011 under this plan amounted to approximately \$2.7 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.



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
Juvenile Institutions Administration
San Juan, Puerto Rico

We have audited the schedule of cash receipt and disbursement activities of the Commonwealth of Puerto Rico Juvenile Institution Administration (“AIJ”) 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, AIJ 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 disclose that the schedule of AIJ 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 AIJ. 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 AIJ'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 AIJ's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the AIJ'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.

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 deficiency described in the accompanying schedule of findings and recommendation as item 11-FS-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AIJ'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 recommendation as item 11-FS-01.

This report is intended solely for the information of the AIJ'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, CPAs PSC
CERTIFIED PUBLIC ACCOUNTANTS
December 22, 2011

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**COMMONWEALTH OF PUERTO RICO
JUVENILE INSTITUTIONS ADMINISTRATION**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2011**

Finding 11-FS-01

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, Puerto Rico withholding tax form 499R-4, 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 1995 and 1998.

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 AIJ is exposed to penalties in case of legal claims.

Recommendation:

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

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 AIJ. In addition in certain cases times cards signed by employees and approved by supervisor were not available for our examination.

Criteria:

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

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**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2011**

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 \$10,000 during the year ended June 30, 2011 was paid to employees in leave of absence or that longer worked for AIJ.

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.