

# GOVERNMENT OF PUERTO RICO VOCATIONAL REHABILITATION ADMINISTRATION

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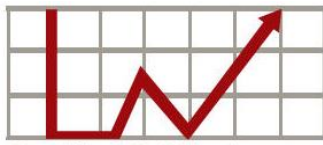
(AN ORGANIZATIONAL COMPONENT OF THE PUERTO RICO DEPARTMENT OF LABOR AND HUMAN  
RESOURCES)



BASIC FINANCIAL STATEMENTS, SUPPLEMENTARY  
INFORMATION WITH THE ADDITIONAL REPORTS  
AND INFORMATION REQUIRED BY THE GOVERNMENT  
AUDITING STANDARDS AND THE UNIFORM GUIDANCE  
For the Fiscal Year Ended June 30, 2022

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*López-Vega, CPA, PSC*

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## INDEPENDENT AUDITORS' REPORT

**To the Administrator and Management  
of the Government of Puerto Rico  
Vocational Rehabilitation Administration  
(an Organizational Component of Puerto Rico Department of  
Labor and Human Resources)  
San Juan, Puerto Rico**

### Report on the Audit of the Financial Statements

#### *Qualified and Unmodified Opinions*

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **Government of Puerto Rico – Vocational Rehabilitation Administration (an Organizational Component of Puerto Rico Department of Labor and Human Resources (the Administration))**, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the **Administration's** basic financial statements as listed in the table of contents.

#### *Summary of Opinions*

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Federal Programs Fund	Unmodified
Aggregate remaining fund information	Unmodified
Enterprise Fund	Unmodified

#### *Qualified Opinion on Governmental Activities*

In our opinion, except for the effects of the matter described in the "*Basis for Qualified and Unmodified Opinions*" section of our report, the financial statements referred to above present fairly, in all material aspects, the financial position of the governmental activities of the **Administration**, as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Unmodified Opinions on Business-type Activities, Each Major Fund and the Aggregate Remaining Fund Information*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the **Administration**, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Basis for Qualified and Unmodified Opinions***

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 responsibilities under those standards are further described in the “*Auditor’s Responsibilities for the Audit of the Financial Statements*” section of our report. We are required to be independent of the **Administration**, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

### *Matters Giving Rise to the Qualified Opinion on Governmental Activities*

Noncompliance GASB Statement No. 73 “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*” and GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”

The Puerto Rico Government Employees’ Retirement System Administration (ERS) has not provided the audited financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2022. The information, although available, has not been segregated to properly identify the Administration’s total pension liability and OPEB liability as of June 30, 2022. The information is included within the PR Department of Labor total pension liability. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration governmental activities has not been determined.

Also, the Administration’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In addition, the Retirement System Administration (ERS) has not provided the Administration with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021, (Administration’s measurement date), necessary to comply with the requirements of GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, as of June 30, 2022. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the total OPEB liability, applicable disclosures and required supplementary information have been omitted.



*López-Vega, CPA, PSC*

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Emphasis of Matter***

As discussed in **Note 1**, the basic financial statements of the **Administration** are intended to present the financial position, and the changes in financial position of only that portion of the governmental and business-type activities of the Puerto Rico Department of Labor and Human Resources (the Department) attributable to the transactions of the **Administration**. It does not intend to and does not present fairly the financial position and changes in financial position of the Department or the Government of Puerto Rico (the Government) in conformity with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in **Note 2** and **Note 14** to the financial statement, in 2022, the **Administration** adopted new accounting guidance, GASB Statement No. 87, "Leases".

Our opinion is not modified with respect to these matters.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Administration's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is



*López-Vega, CPA, PSC*

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Auditor's Responsibilities for the Audit of the Financial Statements (continued)***

a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Administration's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Administration's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information Omitted***

Management has omitted historical pension information and the applicable disclosures and required supplementary information, as stated in GASB Statement No. 73 and in GASB Statement No. 75, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on **pages 6-11 and 42** be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of



*López-Vega, CPA, PSC*

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Required Supplementary Information (continued)***

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Administration's** basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2023 on our consideration of the **Administration's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the **Administration's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Administration's** internal control over financial reporting and compliance.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 23, 2023

Stamp No. E486938 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

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**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Our discussion and analysis of the Vocational Rehabilitation Administration (the Administration) financial performance provides an overview of its financial activities for the year ended June 30, 2022. Please read it in conjunction with the financial statements and accompanying notes.

**Financial Highlights**

- The Administration's total assets amounted to approximately \$13.22 million, which represents an increase of approximately \$8.59 million as compared to the balance for 2021.
- The Administration's total liabilities amounted to \$17.43 million, which represents an increase of approximately \$8.17 million as compared to prior year.
- The Administration's total liabilities, on a government-wide basis, exceed its assets by approximately \$4.22 million as of June 30, 2022.

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Administration as a whole and present a longer-term view of the Administration's finances.

The fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the Administration's operations in more detail than government-wide financial statements by providing information about the Administration's most significant funds.

Our financial analysis commences with the Statement of Net Position and Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All current year's revenues and expenses are accounted for regardless of when cash is received or paid.

The two statements report the Administration's net position and changes in them. You can think of the Administration's net position (the difference between assets and liabilities) as one way to measure the Administration's financial health, or financial condition. Over the time, increases or decreases in the Administration's net position are one indicator of whether its financial health is improving or deteriorating.

**Government-Wide Financial Statements**

The Government-Wide Financial Statements are composed of the Statement of Net Position and the Statement of Activities are commonly divided into the following activities:

- Governmental activities – The Administration's basic services are reported here, including among others, the rehabilitation services, management and support and capital improvements. Federal grants and legislative appropriations finance most of these activities.
- Business-type activities – The Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) is reported here. Sales of manufactured and purchase products and legislative appropriations finance this activity.



GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds, not the Administration as a whole. Its major funds are the Federal Programs Funds and the General Fund. Other non-major funds, if any, are reported as Other Governmental Funds.

- Governmental funds – Most of the Administration's basic services are reported in governmental funds, which focus on how money flow into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide detailed short-term view of the Administration's general government's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Administration's operations. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation shown in the fund financial statements.
- Proprietary fund – This fund is used to show the activity of the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) which operates more like a commercial enterprise. Because this fund charges for the products that sells, it is known as enterprise fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

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**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**The Administration as a Whole**

The Administration's governmental activities net deficit amounted to \$4.22 million at June 30, 2022.

The Administration's business-type activities net deficit amounted to \$0.9 million at June 30, 2022.

The following table summarizes the statements of net assets as of June 30, 2022 and 2021.

	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>
Current and other assets	\$ 4.33	\$ 3.68	\$ 0.65	\$ (0.03)	\$ (0.01)	\$ (0.02)
Capital assets	8.89	0.95	7.94	0.00	0.00	-
<b>Total assets</b>	<b>13.22</b>	<b>4.63</b>	<b>8.59</b>	<b>(0.03)</b>	<b>(0.01)</b>	<b>(0.02)</b>
Account payables and other current liabilities	3.88	3.00	0.88	0.05	0.02	0.03
Central government advances	0.67	0.70	(0.03)	-	-	-
Accrued compensated absences	2.86	3.54	(0.68)	0.02	0.03	(0.01)
Accrued termination benefit	1.51	2.02	(0.51)	-	-	-
Lease liability	8.51	-	8.51	-	-	-
<b>Total liabilities</b>	<b>17.43</b>	<b>9.26</b>	<b>8.17</b>	<b>0.07</b>	<b>0.05</b>	<b>0.01</b>
Net invested in capital	8.89	0.95	7.94	0.00	0.00	-
Unrestricted	(13.11)	(5.58)	(7.53)	(0.09)	0.06	(0.15)
<b>Total net position (deficit)</b>	<b>\$ (4.22)</b>	<b>\$ (4.63)</b>	<b>\$ 0.41</b>	<b>\$ (0.09)</b>	<b>\$ 0.06</b>	<b>\$ (0.15)</b>

Following are the major changes on the Administration's financial position:

- Total assets of the Administration's governmental activities increased by \$8.59 million. This increase is due mostly to implementation of GASB 87 – Leases.
- Total governmental activities liabilities increased by \$8.17 million. This increase is mostly due to \$8.51 million due to implementation of GASB 87 – Leases.
- Total governmental activities deficit decreased by \$0.41 million.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**The Administration as a Whole (continued)**

The following table summarizes the statement of activities for the fiscal years ended June 30, 2022 and 2021.

	<b>Governmental Activities</b>			<b>Business-type Activities</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>
<b>Revenues:</b>						
Charges for products	\$ -	\$ -	\$ -	\$ 0.02	\$ 0.03	\$ (0.01)
Legislative appropriations	25.02	24.67	0.35	-	-	-
Intergovernmental-federal government	42.34	39.07	3.27	-	-	-
<b>Total revenues</b>	<b>67.36</b>	<b>63.74</b>	<b>3.62</b>	<b>0.02</b>	<b>0.03</b>	<b>(0.01)</b>
<b>Program Expenses:</b>						
Management and support	45.13	44.68	0.45	-	-	-
Vocational rehabilitation services	21.00	17.40	3.60	-	-	-
Older blind program	0.33	0.25	0.08	-	-	-
Independent life program	0.24	0.15	0.09	-	-	-
Program for the industry of blind and physical, mental and development disabilities persons	-	-	-	(0.28)	0.31	(0.59)
<b>Total expenses</b>	<b>66.70</b>	<b>62.48</b>	<b>4.22</b>	<b>(0.28)</b>	<b>0.31</b>	<b>(0.59)</b>
Transfers	(0.23)	(0.52)	0.29	0.23	0.52	(0.29)
<b>Increase (decrease) in Net Position</b>	<b>\$ 0.43</b>	<b>\$ 0.74</b>	<b>\$ (0.31)</b>	<b>\$ 0.53</b>	<b>\$ 0.24</b>	<b>\$ 0.29</b>

During the year ended June 30, 2022, the Administration received \$42.34 million from Federal Assistance Programs, representing 63% of total governmental activities funds received.

Also, the Administration expended \$66.13 million for management and support and vocational rehabilitation services, representing 99% of total expenses during the year ended June 30, 2022.

**Capital Assets**

At the end of June 30, 2022, the Administration had \$8.89 million invested in equipment, furniture, right to use and vehicles, (net of depreciation) in governmental activities and \$0.001 invested in equipment, furniture, vehicles and building improvements, (net of depreciation) in business-type activities. The Administration' capital assets consist mostly of right to use certain real estate.

GOVERNMENT OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**General Fund Budgetary Highlights**

The 2021-2022 General Fund Budget amounted to \$22,707,308.

For the year ending June 30, 2022, the General Fund Budget assigned to the Administration represents a decrease of \$2,106,692 as compared with fiscal year ended June 30, 2021.

	2022	2021	Increase (decrease)
General Fund	\$22,707,308	\$24,814,000	\$(2,106,692)

**Approval of Government's Plan of Adjustment**

Prior to March 15, 2022, the Government and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Government's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Government's special revenue fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Government's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Government and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Government, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Government of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Approval of Government's Plan of Adjustment (Continued)**

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the "Law to End the Bankruptcy of Puerto Rico", which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Government of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Government Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Government Confirmation Order). In both the Government Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Government Plan of Adjustment.

Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Government Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Government Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119 and 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

On March 15, 2022 (the effective date), the conditions precedent to the effective date of the Government Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Government Plan of Adjustment has been confirmed and is currently effective as of the date hereof.

**Request for Financial Information**

This annual financial report is intended to provide the public with an overview of the Administration financial operations and condition for the fiscal year ended June 30, 2022. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Vocational Rehabilitation Administration, PO Box 91118, San Juan, Puerto Rico 00919-1118.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
STATEMENT OF NET POSITION  
JUNE 30, 2022

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash in commercial banks and resources with fiscal agent	\$ -	\$ 8,049	\$ 8,049
Receivables, net	-	4,772	4,772
Due from other government	3,966,268	-	3,966,268
Inventories	-	110,370	110,370
Prepaid expenses	210,856	90	210,946
Deposits	-	-	-
Internal balances	151,123	(151,123)	-
Capital assets, net	8,894,526	1,870	8,896,396
<b>Total assets</b>	<b>13,222,773</b>	<b>(25,972)</b>	<b>13,196,801</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	3,883,356	45,670	3,929,026
Central Government advances	665,563	-	665,563
Liabilities payable within one year:			
Compensated absences	2,316,870	17,158	2,334,028
Voluntary termination benefits	250,991	-	250,991
Lease liability	2,403,869	-	2,403,869
Liabilities payable over one year:			
Compensated absences	543,464	-	543,464
Voluntary termination benefits	1,262,658	-	1,262,658
Lease liability	6,107,130	-	6,107,130
<b>Total liabilities</b>	<b>17,433,901</b>	<b>62,828</b>	<b>17,496,729</b>
<b>Net Position</b>			
Invested in capital assets	8,894,526	1,870	8,896,396
Unrestricted (deficit)	(13,105,654)	(90,670)	(13,196,324)
<b>Total net position</b>	<b>\$ (4,211,128)</b>	<b>\$ (88,800)</b>	<b>\$ (4,299,928)</b>

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Position		
		Operating Grants and Contributions	Charge for Services	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Governmental activities:</b>						
Management and Support	\$ (45,129,215)	\$ 53,378,067	\$ -	\$ 8,248,852	\$ -	\$ 8,248,852
Vocational Rehabilitation Services	(21,003,163)	13,404,373	-	(7,598,790)	-	(7,598,790)
Older Blind Program	(328,377)	328,377	-	-	-	-
Independent Life Program	(235,794)	235,794	-	-	-	-
	<u>(66,696,549)</u>	<u>67,346,611</u>	<u>-</u>	<u>650,062</u>	<u>-</u>	<u>650,062</u>
<b>Business-Type Activities:</b>						
Program for the industry of blind and physically, mental and development	(278,665)	-	18,971	-	(259,694)	(259,694)
<b>Total Business-Type Activities</b>	<u>(278,665)</u>	<u>-</u>	<u>18,971</u>	<u>-</u>	<u>(259,694)</u>	<u>(259,694)</u>
<b>Total</b>	<u>\$ (66,975,214)</u>	<u>\$ 67,346,611</u>	<u>\$ 18,971</u>			
Change in net position before transfers				650,062	(259,694)	390,368
Transfer out central government				(229,879)	229,879	-
<b>Change in net position</b>				<u>420,183</u>	<u>(29,815)</u>	<u>390,368</u>
Net position (deficit), beginning				(4,631,311)	(58,985)	(4,690,296)
Net position (deficit), ending				<u>\$ (4,211,128)</u>	<u>\$ (88,800)</u>	<u>\$ (4,299,928)</u>

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2022

	General	Federal Programs	Other Governmental Funds	Total
<b>ASSETS</b>				
Due from other government	\$ -	\$ 3,966,268	\$ -	\$ 3,966,268
Prepaid expenses	210,857	-	-	210,857
Due from other fund	68,152	82,971	-	151,123
Total assets	<u>\$ 279,009</u>	<u>\$ 4,049,239</u>	<u>\$ -</u>	<u>\$ 4,328,248</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 499,680	\$ 3,383,676	\$ -	\$ 3,883,356
Central Government advances	-	665,563	-	665,563
Total liabilities	<u>499,680</u>	<u>4,049,239</u>	<u>-</u>	<u>4,548,919</u>
Fund balance (deficit)				
Unassigned	(220,671)	-	-	(220,671)
Total fund balance (deficit)	<u>(220,671)</u>	<u>-</u>	<u>-</u>	<u>(220,671)</u>
Total liabilities and fund balance	<u>\$ 279,009</u>	<u>\$ 4,049,239</u>	<u>\$ -</u>	<u>\$ 4,328,248</u>

See accompanying notes to basic financial statements.



GOVERNMENT OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION  
 RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2022

<b>Total fund balances of governmental fund</b>	<b>\$ (220,671)</b>
Amounts reported to governmental activities in the Statement of Net Position are different than the amounts reported in the Balance Sheet - Government Funds because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund financial statements.	8,894,525
Lease liability is not to be paid with current financial resources and therefore, not reported in the fund financial statements.	(8,510,999)
Liabilities of accrued compensated absences are not to be paid with current financial resources and therefore, not reported in the fund financial statements.	(2,860,334)
Liability of accrued termination benefits are not to be paid with current financial resources and therefore, not reported in the fund financial statements.	<u>(1,513,649)</u>
<b>Net position of governmental activities</b>	<u><u>\$ (4,211,128)</u></u>

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES-GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	General	Federal Programs	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Legislative appropriations	\$24,286,214	\$ -	\$ 721,000	\$ 25,007,214
Federal grants	-	42,339,396	-	42,339,396
Total revenues	<u>24,286,214</u>	<u>42,339,396</u>	<u>721,000</u>	<u>67,346,610</u>
<b>EXPENDITURES</b>				
Current:				
Management and Support	17,349,090	27,948,781	519,250	45,817,121
Vocational Rehabilitation Services	6,912,552	13,707,314	201,750	20,821,616
Older Blind Program	-	373,089	-	373,089
Independent Life Program	-	310,212	-	310,212
Total expenditures	<u>24,261,642</u>	<u>42,339,396</u>	<u>721,000</u>	<u>67,322,038</u>
Net change in fund balances	<u>24,572</u>	<u>-</u>	<u>-</u>	<u>24,572</u>
Other financial sources:				
Transfer to other funds	(229,879)	-	-	(229,879)
	<u>(229,879)</u>	<u>-</u>	<u>-</u>	<u>(229,879)</u>
Net change in fund balances	<u>(205,307)</u>	<u>-</u>	<u>-</u>	<u>(205,307)</u>
Fund balance (deficit), beginning	<u>(15,364)</u>	<u>-</u>	<u>-</u>	<u>(15,364)</u>
Fund balance (deficit), ending	<u>\$ (220,671)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (220,671)</u>

See accompanying notes to basic financial statements.

**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
 BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<b>Net change in fund balances-total governmental fund</b>	<b>(\$205,307)</b>
<p>Amounts reported for governmental activities in the Statement of Activities and changes in net position are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense for the year.</p>	7,948,128
<p>Lease liability reported in the Statement of Activities do not require the use of current financial resources and therefore, is not recorded as expenditures in governmental funds.</p>	
Liability incurred	(10,612,135)
Amount paid	2,101,136
<p>Accrued compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the amount by which accrued compensated absences decreased.</p>	677,670
<p>Accrued termination benefits reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the amount by which accrued termination benefits decreased.</p>	<u>510,691</u>
<b>Change in net position of governmental activities</b>	<b><u>\$420,183</u></b>

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION  
 STATEMENT OF NET POSITION (DEFICIT) – ENTERPRISE FUND  
 JUNE 30, 2022

	<b>Enterprise Fund</b>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and resources with fiscal agent	\$ 8,049
Receivables (net)	4,772
Inventories	110,370
Prepaid	90
<b>Total current assets</b>	<b>123,281</b>
<b>Noncurrent Assets:</b>	
Capital assets, net	1,870
<b>Total assets</b>	<b>125,151</b>
<b>Liabilities and Net Position</b>	
<b>Current liabilities:</b>	
Accounts payable	40,270
Due to other funds	151,123
Payroll taxes and withholdings	5,400
Accrued compensated absences, current portion	17,158
<b>Total current liabilities</b>	<b>213,951</b>
<b>Net Position</b>	
Net Investment in capital assets	1,870
Unrestricted (deficit)	(90,670)
<b>Total net position</b>	<b>\$ (88,800)</b>

See accompanying notes to basic financial statements.

**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN  
 NET POSITION - ENTERPRISE FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<b>Enterprise Fund</b>
<b>Operating revenues</b>	
Net sales	\$ 18,971
<b>Cost of sales</b>	
Materials	13,913
Direct Labor	227,942
Total cost of sales	241,855
<b>Excess of cost over revenue</b>	(222,884)
<b>General and administrative expenses</b>	(36,810)
<b>Operating loss</b>	(259,694)
<b>Transfer to Central Government</b>	229,879
<b>Change in net position</b>	(29,815)
<b>Net position, beginning</b>	(58,985)
<b>Net position, ending</b>	\$ (88,800)

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
STATEMENT OF CASH FLOWS - ENTERPRISE FUND  
JUNE 30, 2022

	Enterprise Fund
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 27,610
Payment to suppliers and employees	(254,241)
Advances from other funds	229,279
	2,648
Net cash flows provided in operating activities	2,648
Net increase in cash	2,648
Cash beginning of year	5,401
Cash end of year	\$ 8,049
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Change in net position	(29,815)
Adjustments to reconcile change in net position to net cash used by operating activities:	
Change in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	8,639
Inventory	12,284
Increase (decrease) in:	
Accounts payable	21,887
Other liabilities	(10,347)
Net cash used in operating activities	\$ 2,648

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 1 Governmental Environment**

**Organization**

The Vocational Rehabilitation Administration (the Administration) is an agency of the Government of Puerto Rico organized to manage the funds for vocational rehabilitation services as established in Public Law No. 93-112 of September 26, 1973, as amended, known as The Rehabilitation Law. The Administration was previously an operational component of the Department of the Family of the Government of Puerto Rico until June 10, 2000, when Law No. 97, transferred it to the Department of Labor and Human Resources of the Government of Puerto Rico. Its mission is to enable persons with disabilities to enter in the workforce so they can lead an independent life.

The Administration's public policy is to establish comprehensive vocational rehabilitation services for citizens with disabilities so that they can achieve employment and contribute to the well-being of their families and society. In addition, the Administration promotes that community organizations participate actively in the rehabilitation of citizens with significant and severe disabilities.

**Funding**

For governmental funds, the Administration is funded by contributions from Federal and Government of Puerto Rico governments' branches. Legislative appropriations are collected annually to match the Federal Awards. During the year ended June 30, 2022, the ratio of Federal to State Funds was approximately 63/37%, respectively.

For the proprietary fund, the Administration is funded by proceeds from sales of products manufactured and purchased for resale and from Government of Puerto Rico legislative appropriations.

**Program description**

**a. Management and Support**

The management and support program consists of the administrative and operational structure of the Administration. Its divisions are the Administrator's Office, the Office of Legal Affairs, the Office of Labor Affairs and Human Resources, the Administration Office, the Office of Management Information Systems, the Office of Operational Policies and six (6) regional offices located in Caguas, San Juan, Arecibo, Bayamón, Mayaguez and Ponce.

**b. Vocational Rehabilitation Services**

This program offers comprehensive, coordinated, effective, efficient and accountable programs of vocational rehabilitation in order to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities and capabilities so they may prepare for and engage in competitive employment.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 1 Governmental Environment (continued)**

**Program description (continued)**

**c. Older Blind Program**

This program provides services that improve or expand independent living services. Among the services provided are those to help correcting or modifying visual disabilities, provide eyeglasses and other visual aids, provide services and equipment to enhance mobility and self-care, provide training in Braille and other services to help older individuals who are blind adjust to blindness, provide teaching services in daily living activities and other supportive services that enable individuals to live more independently. Funds can also be used to improve public understanding of the problems faced by older individuals who are blind.

**d. Independent Life Program**

This program offers services to maximize the leadership, empowerment, independence and productivity of individuals with disabilities, and the integration and full inclusion of individuals with disabilities into the mainstream society, by providing financial assistance for providing, expanding and improving the provision of independent living services.

**e. Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons**

This program is designed to establish and organize workshops that provide training, employment and any other services that are deemed appropriate or necessary for the rehabilitation of individuals who are blind, mental or other delayed physical disability.

**Note 2 Summary of Significant Accounting Policies**

The accompanying basic financial statements of the Administration have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*" (GASB No. 34). This statement establishes financial reporting requirements for state and local government. The Administration adopted the provisions of GASB No. 34 as well as other statements referred to below as of July 1, 2007. They require information and restructure much of the information that governmental entities have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASB No. 34 the Administration has prepared required supplemental information titled Management Discussion and Analysis, which precedes the basic financial statements.



GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Basis of Presentation**

**Government-Wide Financial Statements**

The Government-Wide financial statements include the Statement of Net Position and the Statement of Activities and display information of all the activities of the Administration as a whole. The Administration's activities are considered governmental-type while the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons activity is considered business-type.

**Statement of Net Position**

The Statement of Net Position presents the difference between assets, deferred outflow of resources (if any), liabilities and deferred inflow of resources (if any) in government-wide statements. Net position is reported in three (3) categories:

- a. Invested in capital assets** – This consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of debt that are attributed to the acquisition, construction, or improvement of those assets, if any.
- b. Restricted net position** – Results when constraints placed on net position use are externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- c. Unrestricted (deficit)** – This consists of amounts which do not meet the definition of the two preceding categories. Unrestricted (deficit) net position often has constraints on resources that are imposed by management but can be removed or modified.

**Statement of Activities**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. It presents the expenses, revenues and net (expenses) revenues by program segregated between governmental and business-type activities.

Federal grant revenues are recorded in the accounting period in which they are expended. Legislative appropriations, representing annual appropriations from the Government of Puerto Rico are recorded when measurable and available.

**Fund Financial Statements**

The accounts of the Administration are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the Administration's current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Governmental Funds**

The following are the governmental fund types presented in the financial statements as of and for the year ended June 30, 2022:

**a. General Fund**

This fund includes the financial resources which relate to the general operations of the Administration. These operations consist of the general administration and other activities not accounted for in other funds. All Government of Puerto Rico's appropriations used for matching are recorded in this fund.

**b. Federal Programs**

This fund is used to account for all federal grants that are restricted for expenditures of federal programs.

**c. Other Governmental Funds**

Other governmental funds consist mainly of special appropriations for operational and administrative costs and projects for improvements and maintenance of facilities.

**Total Governmental Funds column** – The total columns on the statements are provided only to facilitate additional analysis. Interfund transactions have not been eliminated, therefore, total columns are not comparable to a consolidation.

Major funds are identified based on total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of that individual governmental or proprietary fund that are at least 10% of the corresponding element total for all funds of the category type, and the same element that met the 10% criterion is at least 5% of the corresponding element total for all governmental and proprietary funds combined. General Fund is always presented as a major fund.

**Enterprise Funds**

The following is the enterprise fund that is presented in the financial statements as of and for the year ended June 30, 2022.

**a. Enterprise fund**

This fund presents the operations of the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Measurement Focus and Basis of Accounting (continued)**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

The governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated or in a soon enough period after the balance sheet date to pay current budget period expenditures while available means collectible within the current period. For this purpose, the Administration considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related funds liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

The proprietary fund uses the economic resources measurement focus and the accrual basis of accounting. This means that proprietary fund is reported in the same way that all activities are reported in the government-wide financial statements.

**Encumbrances**

Encumbrances accounting is provided to record the appropriation from available resources in the governmental funds of purchase orders and contracts for which goods and/or services have not been received. Under GAAP, encumbrances outstanding at year-end do not constitute expenditures or liabilities since the commitments will be honored during subsequent year(s). Encumbrances constitute the equivalent of expenditures for budgetary purposes.

**Inventory**

Inventory is stated at average cost and reported as cost when individual inventory items are sold.

**Capital Assets**

All buildings and infrastructure occupied by the Administration are either rented or recorded as capital assets in the accounting records of another Agency of the Government of Puerto Rico. Accordingly, all major modernizations and betterments done by the Administration are charged to expenditures in its fund accounting and reported as expense in the government-wide financial statements when incurred. All other capital assets used in the governmental operations are accounted for in the government-wide financial statement of net position, rather than in the governmental funds. When capital assets are purchased, they are recorded as expenditures in the governmental funds. Fixed assets are stated at cost.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

When assets are sold, retired or otherwise disposed of, the cost is removed from the Government-wide financial statement of net position. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from five (5) to fifteen (15) years.

**Compensated Absences**

The Administration's employees were entitled to 2.5 days per month up to a maximum of 60 days for vacations, and 1.5 days per month up to a maximum of 90 days for sick leave. Vacation and sick leave were recorded as benefits when earned.

Starting on May 1, 2020, current employees are entitled to 1.25 days per month and can accrue up to a maximum of 60 days for vacations and 1.5 days per month up to maximum of 90 days for sick leave if they were employed before February 4, 2020. Employees hired on February 4, 2020 or after are entitled to 1.25 days per month up to a maximum of 60 days for vacation and 1 day per month up to a maximum of 90 days for sick leave.

Vacation is paid on the liquidate payment after termination or retirement. No sick leave was paid on the liquidation payment. Compensation absences are accounted for in the government-wide financial statements.

**Accounting for pension costs**

Effective on July 1, 2017, the Administration and other participants of the ERS converted to a new "PayGo" model. Under the "PayGo" funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. "PayGo" payments are recorded as expenditure/expenses in the financial statements.

At that date, the Administration's pension costs accounting transitioned from GASB Statement No. 68 to the requirements of GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB No. 68*". Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

**Accounting for other postemployment benefits ("OPEB")**

**GASB Statement No. 75** "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" was effective for the Administration starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Accounting for other postemployment benefits (“OPEB”) (continued)**

resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2021 basic financial statements, nor has it provided to the Administration with the required information to implement the referred accounting pronouncement. The Administration’s contribution for OPEB is included as part of the PayGo charges billed on a monthly basis by the Puerto Rico Department of the Treasury (“PRDT”). PayGo payments are recorded as expenditures/expenses in the financial statements.

**Fund Balance Reporting**

The Administration implemented GASB Statement No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions”*.

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt services fund type, and permanent fund type are clarified by the provisions in this Statement.

Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

In the fund financial statements of the Administration, governmental funds report amounts for two of the five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance committed fund balance and unassigned fund balance classifications are not used. Fund balance classifications are described below:

- 1. Non-Spendable Fund Balance** - This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- 2. Restricted Fund Balance** - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Summary of Significant Accounting Policies (continued)**

**Fund Balance Reporting (continued)**

- 3. Committed Fund Balance** - These amounts can only be used for specific purposes pursuant to constraints imposed by the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the same group removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- 4. Assigned Fund Balance** - This classification reflects the amounts constrained by the Administration to be used for specific purposes but are neither restricted nor committed. Assigned Fund Balance includes all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, which are not classified as non-spendable and are neither restricted nor committed.
- 5. Unassigned Fund Balance** - This fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Administration's policy to use externally restricted resources first, then unrestricted resources committed, assigned, and unassigned in order as needed.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Administration has two items that qualify for reporting in this category:

- 1. Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the balance sheet to the governmental funds and in the government-wide statement of net position (deficit). The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

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**Note 2 Summary of Significant Accounting Policies (continued)**

**Deferred Outflows/Inflows of Resources (continued)**

- 2. Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

**Use of Estimates**

The preparation of the basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Postponed Accounting Standards Implementation**

The Administration has postponed the implementation of the following accounting standards due to unavailability of information. The Administration of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities has not been able to provide the pension liability information required by these Standards.

**Future Accounting Standards**

- ❖ **GASB Statement No. 91, "Conduit Debt Obligation"** – The requirements of this statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
- ❖ **GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements"** – The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- ❖ **GASB Statement No. 96, "Subscription-Based Information Technology Arrangements"** – The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- ❖ **GASB Statement No. 99, "Omnibus 2022"** – The requirements of this Statement are effective as follows:
  - The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

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**Note 2 Summary of Significant Accounting Policies (continued)**

**Future Accounting Standards (continued)**

- ❖ **GASB Statement No. 99, “Omnibus 2022” (continued)**
  - The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
  - The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged and is permitted by topic.
- ❖ **GASB Statement No. 100, “Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62”** – The requirements of this statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- ❖ **GASB Statement No. 101, “Compensated Absences”** – The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these Statements will have on the Administration’s basic financial statements.

**Note 3 Custodial Credit Risk**

Custodial credit risk is that in the event of a bank failure, government’s deposits may not be recovered.

As of June 30, 2022, the Administration has operating accounts with “Banco Popular of Puerto Rico” and in the PR Department of the Treasury. The exposure to custodial credit risk on these accounts is as follows:

**Business-Type Activities**

	<u>Book balance</u>	<u>Bank balance</u>	<u>Amount Uninsured and Uncollateralized</u>
Unrestricted cash:			
Deposited account with Fiscal agent:	<u>\$ 8,049</u>	<u>\$ 8,049</u>	<u>\$ -</u>
Total unrestricted cash	<u>\$ 8,049</u>	<u>\$ 8,049</u>	<u>\$ -</u>



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**Note 3 Custodial Credit Risk (continued)**

**Fiscal condition of GDB and custodial credit risks loss on deposits with GDB**

The Government of Puerto Rico and its instrumentalities, including GDB, are currently facing a severe fiscal and liquidity crisis. Continued operational deficits and lack of access to capital markets have resulted in delays in the repayment of loans outstanding by the Government and its instrumentalities with GDB. As a result of these fiscal challenges affecting GDB, the Government issued moratorium acts and executive orders which, among other provisions, established a regulatory framework governing GDB's operations and liquidity. These measures impose restrictions to access the funds deposited in GDB. In addition, on April 28, 2018, the Financial Oversight and Management Board for Puerto Rico approved GDB's fiscal plan, as required by Public Law 114-187 *Puerto Rico Oversight, Management and Economic Stability Act*, also known as "PROMESA". This plan establishes an orderly wind-down, financial restructuring and closing of GDB's operations.

Management has concluded that, based on facts explained above, the custodial risk on deposits in GDB is high. Notwithstanding, the Administration concluded that an amount of the custodial credit risk on the deposits in GDB cannot be reasonably estimated due to the nature of funds. The Administration's management requested the withdrawal of these funds and is waiting for a final decision from the Board of Directors of the Puerto Rico Fiscal Agency and Financial Advisory Authority, entity created by Act No. 21 of 2017 and Act No. 2 of 2018 to assume all fiscal agency, financial advisory, and reporting functions of GDB.

**Note 4 Resources with Fiscal Agent**

The funds of the Administration are under the custody of the Secretary of the Department of the Treasury of the Government of Puerto Rico, pursuant to Act No. 230 of July 23, 1974, as amended, known as the "Accounting Law of the Commonwealth of Puerto Rico". The P.R. Department of the Treasury follows the practice of pooling resources under the custody of the Secretary of the Treasury. The resources of the Administration are pooled in cash accounts of the Government of Puerto Rico to meet the Administration's current operating requirements.

**Note 5 Risk Financing**

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

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**Note 6 Accounts Receivable**

The balance in accounts receivable of governmental activities mainly represents federal funds expended on or before June 30, 2022, that were reimbursed by the Federal Government after June 30, 2022.

The balance in accounts receivable of business-type activities mainly represents credit sales of products.

**Note 7 Inter-fund Transactions**

The balances recorded in the Due from other funds and Due to other funds accounts represent charges between the Governmental activities and the Business-Type Activities for allocated amounts of administrative services. The related amounts receivable and payable are considered internal balances that have been eliminated in the governmental-wide financial statements.

**Note 8 Capital Assets**

Capital assets' activity of the Administration for the fiscal year ended June 30, 2022 was as follows:

Governmental activities depreciation expense was charged to the management and support function.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets being depreciated:				
Equipment	\$10,166,155	\$ -	\$ -	\$10,166,155
Furniture	835,610	-	-	835,610
Right to use	-	10,612,135	-	10,612,135
Vehicles	1,038,932	-	-	1,038,932
Total capital assets being depreciated	<u>12,040,697</u>	<u>10,612,135</u>	<u>-</u>	<u>22,652,832</u>
Less accumulated depreciation:				
Equipment	10,010,007	51,863	-	10,061,870
Furniture	754,536	35,964	-	790,500
Right to use	-	2,403,870	-	2,403,870
Vehicles	329,757	172,310	-	502,067
Total accumulated depreciation	<u>11,094,300</u>	<u>2,664,007</u>	<u>-</u>	<u>13,758,307</u>
Governmental activities capital assets, net	<u>\$ 946,397</u>	<u>\$7,948,128</u>	<u>\$ -</u>	<u>\$ 8,894,525</u>

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**Note 8 Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets being depreciated:				
Equipment	\$ 91,039	\$ -	\$ -	\$91,039
Furniture	128,733	-	-	128,733
Vehicles	38,800	-	-	38,800
Building improvements	450,153	-	-	450,153
Total capital assets being depreciated	<u>708,725</u>	<u>-</u>	<u>-</u>	<u>708,725</u>
Less accumulated depreciation:				
Equipment	91,038	-	-	91,038
Furniture	128,128	-	-	128,128
Vehicles	38,800	-	-	38,800
Building improvements	448,889	-	-	448,889
Total accumulated depreciation	<u>706,855</u>	<u>-</u>	<u>-</u>	<u>706,855</u>
Business-type activities capital assets, net	<u>\$ 1,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,870</u>

**Note 9 Central Government Advances**

Central government advances in the Governmental Activities - Governmental Funds represent the amount disbursed by the Central Government for the payments of checks issued by the Federal Program and for adjustments made to Other Governmental Funds. When checks issued by the Federal Program are paid by the bank, the Administration requests reimbursement to the Federal Government.

**Note 10 Compensated Absences**

The vested compensated absences liability balance at June 30, 2022 consists of the following activity:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:				
Accrued vacation	<u>\$3,538,004</u>	<u>\$(677,670)</u>	<u>\$2,860,334</u>	<u>\$2,316,870</u>
Business-type Activities:				
Accrued vacation	<u>\$ 26,905</u>	<u>\$ (9,747)</u>	<u>\$ 17,158</u>	<u>\$ 17,158</u>

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**Note 11 Voluntary Termination Benefits**

On July 2, 2010, the Government enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Administration will make employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the Administration.

The financial impact resulting from the benefits granted to participants on this program was the recognition in the Administration’s financial statements of a liability of \$2,024,339 in the Statement of Net Position as of June 30, 2022 and a reduction \$510,690 in the Statement of Activities for the year ended June 30, 2022. At June 30, 2022, unpaid long-term benefits granted on this program were discounted at 1.75%.

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
Accrued termination benefits	\$2,024,339	\$ -	\$(510,690)	\$1,513,649	\$ 302,152

**Note 12 Other Postemployment Benefits (OPEB)**

**Plan description**

The Administration is a participating employer in the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (“ERS-MIPC”). ERS-MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Government. Substantially all fulltime employees of the Government’s primary government, and certain Administration of Puerto Rico and certain component units of the Government not having their own postemployment benefit plan, are covered by the OPEB. Government employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

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**Note 12 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)**

**Benefits provided**

ERS-MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

**Contributions**

The contribution requirement of ERS-MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Government on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Government's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and Administration for their former employees. The Administration's contribution is financed through the monthly PayGo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Government contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

**OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures.**

Although the ERS have issued its audited financial statements as of and for the fiscal year ended June 30, 2021, it has not provided the Administration with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021 (Administration's measurement date), necessary to comply with the requirements of **GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"**, as of June 30, 2022. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the total OPEB liability, applicable disclosures and required supplementary information have been omitted.

**Note 13 Retirement System Reform**

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Government retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS's governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

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**Note 13 Retirement System Reform (continued)**

**Determination of accrued pension benefits as of June 30, 2017 and payments**

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance with the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the PRDT,
- Government's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Government's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Government, the Administration and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to additional uniform contributions were eliminated. Payments are made by the employers (the Administration) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. On July 20, 2017, ERS sold investments for approximately \$297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or Administration to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. For Administration, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances.

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**Note 13 Retirement System Reform (continued)**

**Creation and transition to a new defined contribution plan**

*General* - Effective July 1, 2017, a new defined contribution plan (“DC Plan”) is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan’s assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2020. The transition includes the creation of a separate trust and the transfer of participant accounts.

*Participant accounts and contributions* - Funds are maintained in individual accounts for each participant which are credited with participant’s pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 (“2011 PR Code”). After July 1, 2020, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

*Payment of benefits* - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant’s interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant’s death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant’s interest in his or her account plus accrued pension benefits funded through the PayGo system.

**Reform of ERS’s governance and administration**

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS’s employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2018.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73**

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding administered by the PRDT.

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**Note 13 Retirement System Reform (continued)**

**Reform of ERS's governance and administration (continued)**

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other required disclosures under GASB Statement 73 (continued)**

As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of **GASB Statement No. 68** as of July 1, 2017 and instead, the employers are subject to the requirements of **GASB Statement No. 73**, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68". Although the ERS has issued audited financial statements as of and for the fiscal year ended June 30, 2021, it has not provided to the Administration certain required information necessary to properly implement the provisions of **GASB Statement No. 73** as of and for the fiscal year ended June 30, 2022. As a result, amounts to be reported as deferred outflows/inflows of resources related to pension liability, applicable disclosures and required supplementary information have been omitted.

**Note 14 Lease liability**

The Administration leases premises under various lease agreements, which generally have terms between three and five years. Obligations of leases consist of the following as of June 30, 2022:

<u>Description</u>	<u>Monthly installments</u>	<u>Due date</u>	<u>Amount</u>
Real estate facility	\$ 3,704	November 30, 2026	\$ 181,550
Real estate facility	2,013	September 30, 2023	29,593
Real estate facility	13,868	December 31, 2024	398,966
Real estate facility	938	September 30, 2023	13,782
Real estate facility	3,835	December 31, 2024	110,328
Real estate facility	2,188	May 31, 2024	48,735
Real estate facility	2,628	May 31, 2024	58,538
Real estate facility	25,436	June 30, 2024	590,482
Real estate facility	24,398	June 21, 2025	835,063
Real estate facility	53,306	April 30, 2026	2,251,495
Real estate facility	2,100	June 30, 2026	94,208
Real estate facility	86,896	June 30, 2026	3,898,259
			<u><u>\$ 8,510,999</u></u>



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**Note 14 Lease liability**

Maturity of the lease liabilities as of June 30, 2022, is as follows:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 2,403,869	\$ 259,589	\$ 2,663,458
2024	2,457,589	174,403	2,631,992
2025	2,063,395	93,934	2,157,329
2026	1,568,358	28,441	1,596,799
2027	17,788	161	17,949
	<u>\$ 8,510,999</u>	<u>\$ 556,528</u>	<u>\$ 9,067,527</u>

The total cost of equipment under leases and the accumulated amortization as of June 30, 2022, amounted to \$10,612,135 and \$2,403,869, respectively, which are accounted as capital assets in the accompanying statement of net position.

	Beginning balance	Additions	Payments	Ending balance	Due within one year
<b>Governmental activities:</b>					
Lease liability	\$ -	\$ 10,612,135	\$ (2,101,136)	\$ 8,510,999	\$ 2,403,869

**Note 15 Contingencies**

**Litigation and Claims**

The Government 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 Government of Puerto Rico, present and former employees, directors and other may be represented by the Department of Justice of the Government of Puerto Rico. Any adverse claims to the defendants are to be paid by the Government of Puerto Rico General Fund.

However, the Secretary of the Treasury of the Government of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and Administration of the defendants.

According to the management of the Administration, there are several claims and lawsuits against the Administration arising out of, and incidental to its operations. In the opinion of management, the effect of such claims and lawsuits on the ability of the Administration to carry on its operations and programs is not material to the basic financial statements.

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**Note 15 Contingencies (continued)**

**Federal Awards**

In the normal course of operations, the Administration receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**Note 16 Subsequent Events**

Management has evaluated subsequent events through March 23, 2023, date in which the financial statements were available to be issued.

*End of notes.*

**REQUIRED SUPPLEMENTARY INFORMATION**

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BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)  
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	<u>Original</u>	<u>Budget Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Management and support	\$17,708,000	\$ 18,266,308	\$16,774,503	\$ (1,491,805)
Vocational rehabilitation services	4,835,000	4,441,000	5,557,430	1,116,430
<b>Total</b>	<u>22,543,000</u>	<u>22,707,308</u>	<u>22,331,933</u>	<u>(375,375)</u>
<b>CHARGES TO APPROPRIATIONS</b>				
Management and support	17,708,000	18,266,308	15,419,381	2,846,927
Vocational rehabilitation services	4,835,000	4,441,000	6,912,552	(2,471,552)
<b>Total</b>	<u>22,543,000</u>	<u>22,707,308</u>	<u>22,331,933</u>	<u>375,375</u>
<b>Excess (deficiency) of resources over charges to appropriations</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this required supplementary information.

**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 1 General**

As an Executive Agency of the Government of Puerto Rico, the Administration uses the following procedures in establishing the budget adopted for the General Fund:

- a. The Administration's management prepares a budget project, which is submitted to the Government of Puerto Rico's Office of Management and Budget (PROMB).
- b. After approval by PROMB, the budget project is incorporated into the Government of Puerto Rico's consolidated budget project submitted by the executive body to the Legislature.
- c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project is prepared (the 1<sup>st</sup> of July of each year).
- d. Once the budget project is approved, legally adopted and in operations, the Administration's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Government of Puerto Rico Department of Treasury.
- e. Formal budget integration is employed as a management control device during the fiscal year for the General Fund.
- f. As stated by the Constitution of the Government of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the Administration in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statements purposes, the Administration considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present compliance with budget adopted, which lapses at the end of fiscal year.

**Note 2 Budget/GAAP Reconciliation**

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the general fund in the accompanying Statement of Revenues and Expenditures – Budget and Actual – General Fund is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP basis are the following:

1. Encumbrances are considered as expenditures for budgetary purposes.
2. Prior year encumbrances settled during the year are recorded as expenditures for GAAP basis.
3. Effect of revenues recorded in PRIFAS System other than those of accounting Fund 111.

**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
 NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 2 Budget/GAAP Reconciliation (continued)**

The following is the reconciliation of the difference between GAAP and the budgetary basis for the general fund deficiency of revenues and other financing sources over expenditures:

Excess of resources over charges to appropriations from the budgetary comparison schedule	\$ -
<u>Differences - Budget to GAAP:</u>	
Encumbrances for supplies and services ordered but not received, are reported in the year the order or contract is signed for budgetary purposes, but for financial reporting purposes they are recorded as expenditures in the year the supplies and services are received.	(205,307)
Total deficiency of revenues over expenditures in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance.	\$ (205,307)

**GOVERNMENT OF PUERTO RICO**  
**VOCATIONAL REHABILITATION ADMINISTRATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

<u>Federal Grantor/Pass-Through Grantor and Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Pass-through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>U.S. Department of Education:</b>				
Direct programs:				
Rehabilitation Services				
Vocational Rehabilitation Grants to States	84.126	H126A200080/ H126A210080/ H126A220080	\$ -	\$36,658,416
Independent Living Services for Older				
Individuals who are Blind States Grants	84.177	H177B1200052 /H177B210052 /H177B220052	-	373,089
<b>Sub - total U.S. Department of Education</b>			<u>-</u>	<u>37,031,505</u>
<b>U.S. Department of Treasury:</b>				
Pass-through programs from:				
P.R. Fiscal Agency and Financial Advisory Authority Coronavirus State and Local Fiscal Recovery (ARPA)	21.027	N/AV	-	2,200,000
<b>U.S. Department of Health and Human Services:</b>				
Direct programs:				
ACL Independent Living States Grants	93.369	20G1PRILSG/ 21G1PRILSG/ 22G1PRILSG	171,485	138,727
<b>Total Expenditures of Federal Awards</b>			<u>\$ 171,485</u>	<u>\$39,370,232</u>

The accompanying notes are an integral part of this schedule.

GOVERNMENT OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Note 1 General**

The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the Administration from all federal programs for the year ended June 30, 2022. The Administration’s reporting entity is defined in Note 1 to the financial statements.

**Note 2 Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and was prepared following the modified accrual basis of accounting.

The Assistance Listing Number (“ALN”), formerly known as the Catalog of Federal Domestic Assistance (“CFDA”) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. Assistance listings are detailed public descriptions of federal programs that provide grants, loans, scholarships, insurance, and other types of assistance awards. The SAM.gov assistance listing is the publicly available online database showing all available Federally-funded programs.

**Note 3 Indirect Cost Rate**

The Administration has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

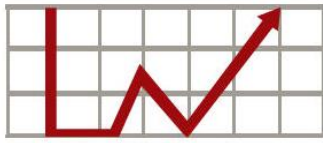
**Note 4 Schedule not in agreement with other federal award reporting**

The information included in the Schedule may not fully agree with other federal awards reports submitted directly to federal granting agencies.

**Note 5 Reconciliation of expenditures presented in the Schedule of Expenditures of Federal Awards to the expenditures presented in the Basic Financial Statements**

Description	Federal programs
Total expenditures as per fund financial statements	\$ 42,339,396
Accrual basis adjustments	(2,797,679)
Total federal expenditures as per Schedule of Expenditures of Federal Awards	\$ 39,541,717





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

**To the Administrator and Management  
of the Government of Puerto Rico  
Vocational Rehabilitation Administration  
(an Organizational Component of Puerto Rico  
Department of Labor and Human Resources)  
San Juan, Puerto Rico**

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **Government of Puerto Rico – Vocational Rehabilitation Administration (an Organizational Component of Puerto Rico Department of Labor and Human Resources (Administration))**, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise **the Administration's** basic financial statements and have issued our report thereon dated March 23, 2023.

The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, total pension liability, pension expense, and related note disclosures with respect to the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the total OPEB liability, and related note disclosures required for the implementation of GASB Statement No. 75.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the **Administration's** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Administration's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Administration's** internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Report on Internal Control over Financial Reporting (continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item **2022-001** that we consider to be material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Administration's** financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as **2022-001**.

**Administration's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the **Administration's** response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The **Administration's** response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 23, 2023

Stamp No. E486939 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



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Certified Public Accountants / Management Advisors



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Administrator and Management  
Of the Government of Puerto Rico  
Vocational Rehabilitation Administration  
(an Organizational Component of Puerto Rico  
Department of Labor and Human Resources)  
San Juan, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the **Government of Puerto Rico – Vocational Rehabilitation Administration (an Organizational Component of Puerto Rico Department of Labor and Human Resources (Administration))** compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of **Administration's** major federal programs for the year ended June 30, 2022. **Administration's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the **Administration's** complied, in all material respects, with the types of 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, 2022.

***Basis for Opinion on Each Major Federal Program***

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the "*Auditor's Responsibilities for the Audit of Compliance*" section of our report.

We are required to be independent of the **Administration** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the **Administration's** compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the **Administration's** federal programs.

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **Administration's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **Administration's** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the **Administration's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the **Administration's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **Administration's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

**Report on Internal Control over Compliance (continued)**

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 23, 2023

Stamp No. E486940 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



GOVERNMENT OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Section I – Summary of Auditors’ Results**

**Financial Statements**

**Opinion Unit:**

Governmental Activities  
 Business-type Activities  
 General Fund  
 Federal Programs Fund  
 Aggregate remaining fund information  
 Proprietary Fund

**Type of Opinion:**

Qualified  
 Unmodified  
 Unmodified  
 Unmodified  
 Unmodified  
 Unmodified

Internal control over financial reporting:

Material weakness identified? Yes  No   
 Significant deficiencies identified not considered to be material weaknesses? Yes  No

Noncompliance material to financial statements noted? Yes  No

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes  No   
 Significant deficiencies identified not considered to be material weaknesses? Yes  No

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Section 200.516(a)? Yes  No

**Identification of Major Federal Programs:**

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States

Dollar threshold used to distinguish between Type A and Type B programs \$1,186,251

Auditee qualified as low-risk auditee? Yes  No

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Section II – Financial Statements Findings**

**Finding Reference      2022-001**

**Requirement:**            **Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)**

**Type of finding:**        **Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)**

**Criteria**

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the Administration report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information.

Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

**Condition**

The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68”*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined.

In addition, the Administration’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.

Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 to comply

GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Section II – Financial Statements Findings**

**Finding Reference            2022-001 (continued)**

**Condition (continued)**

with the requirements of GASB Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

**Effect**

The Administration’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Administration for the fiscal year ended June 30, 2022. Also, the required supplementary information has been omitted.

**Cause**

The Puerto Rico Government Employees’ Retirement System (ERS) has not provided the audited financial and technical information necessary for the implementation of GASB Statement 73 and GASB Statement No. 75 for the Administration as of June 30, 2022. The information is included within the PR Department of Labor total pension liability.

**Recommendation**

We recommend the Administration maintains a constant communication with the Puerto Rico Government Employees’ Retirement System (ERS), in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75 for the Administration.

**Questioned Costs**

None

**Management’s Response**

The Administration have maintained constant communication with the Puerto Rico Government Employees’ Retirement System (ERS) in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75. The information, although available, is not segregated to properly identify the information related to the Administration. It is included within the PR Department of Labor pension liability.



GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**Section III – Federal Awards Findings and Questioned Costs**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to federal awards that are required to be reported in accordance with *OMB Uniform Guidance*.

## VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Federal Program: Rehabilitation Services - Vocational Rehabilitation Grants to States  
 Grant Number: H126A200080/H126A210080 / H126A220080  
 Fiscal year ended: June 30, 2022

Finding Number and Compliance Requirement & Condition	Recommendations and Questioned Costs	Corrective Action Taken	Department and Responsible Officials
<p><b>Section II – Financial Statements Findings</b></p> <p><b>Finding Reference</b>      <b>2022-001</b></p> <p><b>Requirement:</b> Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) &amp; (NC)</p> <p><b>Type of finding:</b> Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)</p> <p><b>Criteria:</b></p> <p>GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the</p>	<p>Recommendation:</p> <p>We recommend the Administration maintains a constant communication with the Puerto Rico Government Employees’ Retirement System (ERS), in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.</p> <p>Questioned Costs: None</p>	<p>VRA Accepts the finding. The Administration have maintained constant communication with the Puerto Rico Government Employees’ Retirement System (ERS) in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75. The information, although available, is not segregated to properly identify the information related to the Administration. It is included within the PR Department of Labor pension liability.</p>	<p>Finance Division/Payroll Section</p>

**Section II – Financial Statements Findings**

**Finding Reference 2022-001 (Continued)**

Administration report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information.

Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.

**Section II – Financial Statements Findings**

**Finding Reference 2022-001 (Continued)**

**Condition**

The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68”*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined.

In addition, the Administration’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.

**Section II – Financial Statements Findings**

**Finding Reference 2022-001 (Continued)**

**Condition (Continued)**

Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 to comply with the requirements of GASB Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

**GOVERNMENT OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**Summary Schedule of Prior Years Audit Findings  
For the Fiscal Year Ended June 30, 2022**

Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Dr. María M. Gómez García – Administrator

Contact Person: Mrs. Grisel Matos Padilla – Auxiliary Administrator of Management Affairs

Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2021-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	<p>The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68”. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined.</p> <p>In addition, the Administration’s financial statements do not disclose the descriptive information about the</p>	VRA Accepts the finding. The Administration will closely monitor the actions of the Retirement System Administration (ERS) in order to try to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75	None	Not resolved yet. See current year finding <b>2022-001</b> .

**GOVERNMENT OF PUERTO RICO  
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Audit Report: Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2021 – June 30, 2022

Fiscal Year: 2021-2022

Principal Executive: Dr. María M. Gómez García – Administrator

Contact Person: Mrs. Grisel Matos Padilla – Auxiliary Administrator of Management Affairs

Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2021-001 (continued)		<p>pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.</p> <p>Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2021 to comply with the requirements of GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. The amount by which this departure would</p>			

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2021-001 (continued)		affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			
2020-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "Accounting and Financial Reporting	The Administration will closely monitor the actions of the Retirement System Administration (ERS) in order to try to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.	None	Not resolved yet. See current year finding <b>2022-001</b> .



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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2020-001 (continued)		<p><i>for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68</i>". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined.</p> <p>In addition, the Administration's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to</p>			

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2020-001 (continued)		<p>be presented to supplement the basic financial statements.</p> <p>Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2020 to comply with the requirements of GASB Statement No. 75 <i>“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”</i>. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally</p>			

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2020-001 (continued)		accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			
2020-002	Maintenance of Effort (MOE)	The Administration did not comply with the matching requirement for program years 2019 and 2020. Also, the Administration has a MOE deficit for program years 2019 and 2020 totaling \$569,600 and \$12,178,902, respectively.	The Administration makes great effort and trying to comply with the matching requirement, however it the funds provided by the General Fund through Joint resolutions have been decreasing due to Fiscal situations on the state level.  Maintenance of effort is a direct consequence of not reaching the expenses required for match purposes. The Agency will continue all outreach activities within our state legislature and the State Office of management and budget for further state funds assignment, in order, to comply with the	None	Compliance requirement not applicable since fiscal year 2020-2021.

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2020-002 (continued)			requirements and gain more access to funds assigned by formula grant.		
2019-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 <i>“Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68”</i> . The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration’s governmental activities has not been determined.	The Administration will closely monitor the actions of the Retirement System Administration (ERS) in order to try to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.	None	Pending action by the Administration.

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2019-001 (continued)		<p>In addition, the Administration’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.</p> <p>Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 to comply with the requirements of GASB Statement No. 75 “Accounting and Financial</p>			

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2019-001 (continued)		<p><i>Reporting for Postemployment Benefits Other Than Pensions</i>". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.</p>			