COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND
HUMAN RESOURCES

BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT
(WITH THE ADDITIONAL REPORTS REQUIRED BY THE *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

DEPARTAMENTO DEL
TRABAJO
Y RECURSOS HUMANOS
GOBIERNO DE PUERTO RICO

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH THE ADDITIONAL REPORTS REQUIRED BY THE *GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE*)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

TABLE OF CONTENTS (CONTINUED)

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

INDEPENDENT AUDITORS' REPORT

To the Honorable Secretary and Management
of the Commonwealth of Puerto Rico
Department of Labor and Human Resources
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the **Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department)**, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **Department's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall\presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions:

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-type Activities	Qualified
General Fund	Qualified
Work Opportunity Incentive Fund	Qualified
Vocational Rehabilitation Administration Fund	Qualified GWFS Unmodified FFS
Unemployment Insurance Fund	Unmodified
Disability Insurance Fund	Qualified
Drivers' Insurance Fund	Qualified
Aggregate Remaining Fund Information	Qualified
Agency Fund	Unmodified

Basis for Qualified Opinions on Enterprise Funds and Business-Type Activities

The **Department** does not maintain adequate accounting records and reconciliation procedures for recording its financial transactions in the Disability Insurance Fund and Drivers' Insurance Fund areas of cash. Because of inadequacies in the **Department's** records we were unable to form an opinion regarding the aggregate amount of cash held by PR Secretary of Treasury amounting to $72.2 million presented in the Statement of Net Position (Business-type activities) and the Statement of Net Position – Enterprise Funds.

Qualified Opinions on Enterprise Funds and Business-Type Activities

In our opinion, based on our audit and the report of other auditors, except for the matters described in the "Basis for Qualified Opinions on Enterprise Funds and Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Funds and the Business-type Activities of the **Department** as of June 30, 2019, and the respective changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinions on Governmental Activities and Governmental Funds: General Fund, Work Opportunity Incentive Fund, the Vocational Rehabilitation Administration and Aggregate Remaining Fund Information"

As discussed in **Note 8** to the financial statements, management has not recorded certain general capital assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinions on Governmental Activities and Governmental Funds: General Fund, Work Opportunity Incentive Fund and Aggregate Remaining Fund Information" (Continued)

Noncompliance 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" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2019. 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 **Department's** governmental activities and the Vocational Rehabilitation Administration has not been determined.

Also, the **Department'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 **Department's** pension plan administrator has not provided the **Department** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (**Department's** measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the OPEB liability, applicable disclosures and required supplementary information have been omitted.

The **Department** does not maintain adequate accounting records and reconciliation procedures for recording its financial transactions in the Governmental Activities, General Fund, Work Opportunity Incentive Fund and Aggregate Remaining Fund Information in the areas of accounts payable and cash overdraft. Because of inadequacies in the **Department's** records we were unable to form an opinion regarding the aggregate amount of cash amounting to $15.8 and accounts payable amounting to $284.80 million presented in the accompanying Statement of Net Position and in the Balance Sheet-Governmental Funds in the General Fund, Work Opportunity Incentive Fund and the Aggregate Remaining Fund Information.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Qualified Opinions on Governmental Activities and Governmental Funds: General Fund, Work Opportunity Incentive Fund and Aggregate Remaining Fund Information"

In our opinion, based on our audit and the report of other auditors, except for the matters described in the "Basis for Qualified Opinions on Governmental Activities and Governmental Funds: General Fund, Work Opportunity Incentive Fund, the Vocational Rehabilitation Administration and Aggregate Remaining Fund Information" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities, the General Fund, Work Opportunity Incentive Fund and Aggregate Remaining Fund Information of the **Department** as of June 30, 2019, and the respective 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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Vocational Rehabilitation Administration Fund and the Unemployment Insurance Fund and the Agency Fund of the **Department**, as of June 30, 2019, 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.

Emphasis of Matter

As discussed in **Note 1**, the financial statements of the **Department**, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Department**.

They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying financial statements of the **Department** have been prepared assuming that the Commonwealth of Puerto Rico will continue as a going concern. As discussed in **Note 17** to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

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 **7** through **20** and **72** through **74**, be presented to supplement the basic financial statements. Such 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.

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 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.

Management has omitted historical pension information, as stated in GASB Statement No. 73, and the applicable disclosures and required supplementary information, as stated 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Department's** basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Management, Cost Principles and Audit Requirement for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2021, on our consideration of the **Department'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 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 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 **Department's** internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 30, 2021

Stamp No. 2783522 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

The **Department of Labor and Human Resources of the Commonwealth of Puerto Rico (the Department)** provides this Management's Discussion and Analysis (MD&A) to the readers of the **Department's** basic financial statements. This MD&A provides a narrative overview and analysis of the financial activities of the **Department** as of and for the year ended June 30, 2019.

The MD&A is designed to: (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the **Department's** funds financial activities, and (c) highlight individual fund matters. Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, it should be read in conjunction with the **Department's** basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

- The total assets of the **Department**, on a government-wide basis, exceeded its total liabilities by $602.7 million at the close of fiscal year 2019.

- Total assets of the **Department** amounted to $973 million, which represents an increase of $131.7 million, or 15.65% increase, compared with fiscal year 2018. Total liabilities of the **Department** amounted to $370.6 million, which represents a decrease of $20.6 million, or 5.28% decrease, as compared with fiscal year 2018.

- The net position of the **Department** increased by $152.4 million, which represents an increase of 33.83%.

- Total revenues amounted to $352.6 million for the fiscal year ended June 2019, showing an increase of $1.1 million, or 0.31%, during the current fiscal year when compared to last fiscal year totals.

- Total expenses amounted to $217.2 million for the fiscal year ended June 2019, which represents a decrease of $78.1 million, or 26.44%, when compared to fiscal year 2018.

- Total fund deficit of governmental funds decreased to $179 million at June 2019, which represents a decrease $30.7 million, or 14.65% in comparison with fiscal year 2018.

- Total fund deficit of the general fund decreased to $290 thousand at June 2019, reflecting a decrease of $340.3 thousand, or 54% when compared to last fiscal year.

The following table presents the Condensed Statements of Net Position of the **Department** as of June 30, 2019 and 2018, in thousands:

Condensed Statements of Net Position

	Governmental Activities		Business - type Activities		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Current assets	$118,006	$91,796	$820,876	$716,286	$938,882	$808,082
Non-current assets	6,365	6,636	28,059	26,878	34,424	33,514
Total assets	124,371	98,432	848,935	743,164	973,306	841,596
Current liabilities	299,985	307,055	62,419	78,073	362,404	385,128
Non-current liabilities	7,817	5,706	340	370	8,157	6,076
Total liabilities	307,802	312,761	62,759	78,443	370,561	391,204
Net position:						
Invested in capital assets	6,365	6,636	12	60	6,377	6,696
Restricted for benefit payments	3,295	-	722,801	595,784	726,096	595,784
Unrestricted	(193,091)	(220,965)	63,363	68,877	(129,728)	(152,088)
Total net position	**($183,431)**	**($214,329)**	**$786,176**	**$664,721**	**$602,745**	**$450,392**

The following table presents the Condensed Statements of Activities of the **Department** for the years ended June 30, 2019 and 2018, in thousands:

Condensed Statements of Activities

	Governmental Activities		Business-type Activities		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Operating revenues	$127,770	$117,370	$224,794	$234,109	$352,564	$351,479
Operating expenses	140,975	128,824	76,249	166,488	217,224	295,312
Operating income (loss)	(13,205)	(11,454)	148,545	67,621	135,340	56,167
Non-operating revenues	1,167	249	16,933	13,756	18,100	14,005
Reserve for loss on deposits with Government Development Bank	-	(578)	-	(16)	-	(594)
Loss on Notes Receivable from Commonwealth	-	-	-	(15,750)	-	(15,750)
Income (loss) before transfers	(12,038)	(11,783)	165,478	65,611	153,440	53,828
Transfers from (to) other funds	42,937	50,221	(44,023)	(50,732)	(1,086)	(511)
Net change in net position	30,899	38,438	121,455	14,879	152,354	53,317
Net position, beginning of year	(214,330)	(252,767)	664,721	649,842	450,391	397,075
Net position, ending	**($183,431)**	**($214,329)**	**$786,176**	**$664,721**	**$602,745**	**$450,392**

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This Management's Discussion and Analysis is required as supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the **Department**. The **Department's** basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These components are described below.

The **Department's** basic financial statements consist of two kinds of statements, each with a different view of the **Department's** finances. The government-wide financial statements provide both long-term and short-term information about the **Department's** overall financial status. The fund financial statements focus on major aspects of the **Department's** operations, reporting those operations in more detail than the government-wide financial statements.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide users of the basic financial statements with a broad overview of the **Department's** finances in a manner like the private sector business. These statements present short and long-term information about the **Department's** financial position, which assists in assessing the **Department's** economic condition at the end of the year.

The Statement of Net Position provides information on the **Department's** assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the **Department's** net position may serve as a useful indicator of whether the financial position of the **Department** is improving or deteriorating because of the year's operations.

The Statement of Activities presents information on how the **Department's** net position changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, the current year's revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the **Department** that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business- type activities). The **Department's** governmental activities include general and administrative, Disaster Unemployment Assistance, employment regulations, employment services, occupational safety and health, rehabilitation services, statistics and monitoring, unemployment services, and work incentive. The business type- activities of the **Department** include unemployment insurance, disability insurance, drivers' insurance, and the Vocational Rehabilitation Administration.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

The Vocational Rehabilitation Administration functions, for all practical purposes, as an organizational component of the **Department** and, therefore, has been included as part of the governmental funds of the **Department**.

The government-wide financial statements of the **Department** can be found on pages **21** to **22** of this report.

Fund Financial Statement: A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The **Department**, like other state departments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The **Department's** funds are divided in three categories: governmental funds, enterprise funds and agency funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both, the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit), provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The **Department** maintains individual governmental funds. Information is presented in the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) for the General Fund, the Work Opportunity Incentive Fund, the Vocational Rehabilitation Administration and Other Governmental Funds, which are major funds of the **Department**. The governmental funds financial statements of the **Department** provide separate information on the governmental activities of the **Department's** organizational component agencies.

The **Department's** basic governmental fund financial statements can be found on pages **23** and **25** of this report.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

Enterprise funds: Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements and to provide the same type of information as the government-wide financial statements, only in more detail. The **Department** uses enterprise funds to account for the Unemployment Insurance, the Disability Insurance, the Drivers' Social Security Insurance, and the Vocational Rehabilitation Administration Programs, which are all considered major funds.

The **Department's** basic enterprise funds financial statements can be found on pages **27** to **29** of this report.

Agency fund: The agency fund is used to account for funds held in a purely custodial capacity. Since the agency fund should not be reported in the statement of changes in agency net position, such statement is not presented as a part of the basic financial statements. The **Department's** agency fund financial statement can be found on page **30** of this report.

Notes to Basic Financial Statements: The notes provide information that is essential to a full understanding of the data provided about the **Department**, which is included in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages **31** through **71** of this report.

Other Information: The required supplementary information is included immediately following the notes to basic financial statements. This section includes the Budgetary Comparison Schedule - General Fund with the related Notes to Budgetary Comparison Schedule - General Fund and can be found on pages **72** through **74** of this report. A Budgetary Comparison Schedule has been provided for the general fund to demonstrate its compliance with the annual budget appropriations.

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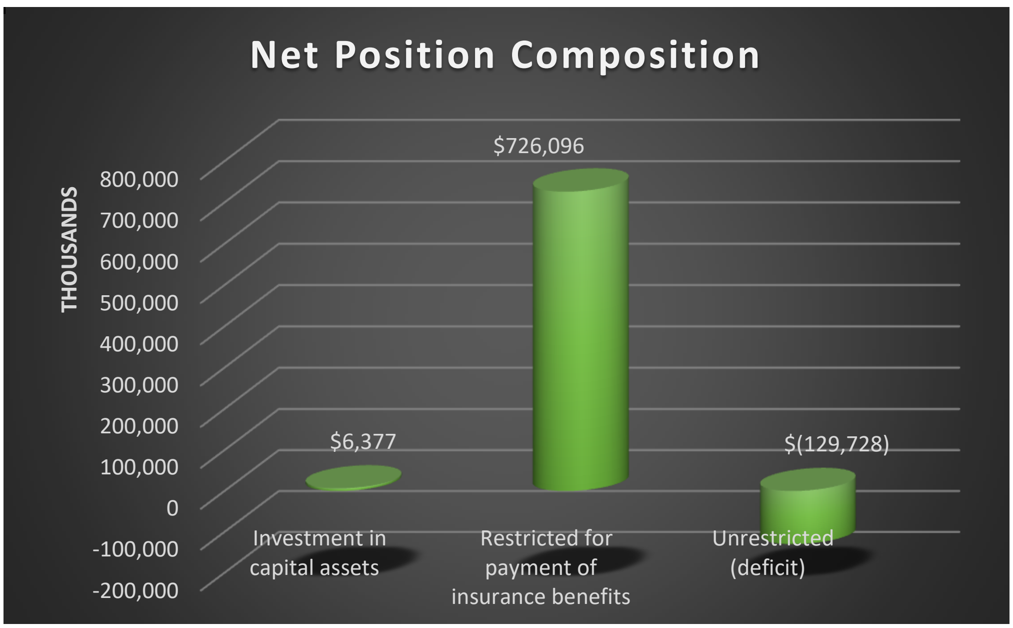
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The net position serves over time as a useful indicator of the **Department's** financial position at the end of the fiscal year. Net position represents the residual interest in the **Department's** assets after liabilities are deducted. The **Department's** net position amounted to $602.7 million at June 30, 2019. The major classifications of the net position at June 30, 2019 are shown in the following illustration, in thousands:



A portion of the **Department's** net position reflects its investment in capital assets such as buildings, furniture and equipment, computer equipment and software, and vehicles. The **Department** uses these capital assets to provide services to its eligible citizens; consequentially, these assets are not available for future spending.

An additional portion of the **Department's** net position represents resources that are subject to external restrictions on how they may be used. An otherwise positive remaining balance would be used to meet the **Department** ongoing obligations for eligible citizens' claims and creditors. Internally imposed designations of resources are not presented as restricted net position.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Changes in Net position

The **Department's** net position increased by $152.3 million during the fiscal year 2019 compared to 2018. The change in net position is composed of a positive change in net position of $30.9 million from governmental activities and a positive change in net position of $121.4 million from business-type activities. The increase was due mainly to an increase on operating activities of $146.7 million.

Governmental Activities

The Governmental activities expenses exceeded its revenues by $13.2 million. However, there were unrestricted investment earnings and transfers from business-type activities of $1.2 million and $42.9 million, respectively, which resulted in an increase in net position from Governmental activities of $30.9 million. Operating grants and contributions assigned to governmental activities represent approximately 36.24% of the total revenues of the **Department**. The **Department's** governmental activities major sources of revenues are accounted for as general and administrative, unemployment services, and rehabilitation services functions. Those revenues represent 66.43% of the total governmental activities revenues for the year ended June 30, 2019. In comparison with fiscal year 2018, revenues from the Governmental activities of the **Department** increased by $10.4 million.

The largest expenses in 2019 were general and administrative and rehabilitation services, which accounted for 54.08% of total governmental activities expenses. In comparison with fiscal year 2018, total expenses from governmental activities of the **Department** increased by $12.2 million.

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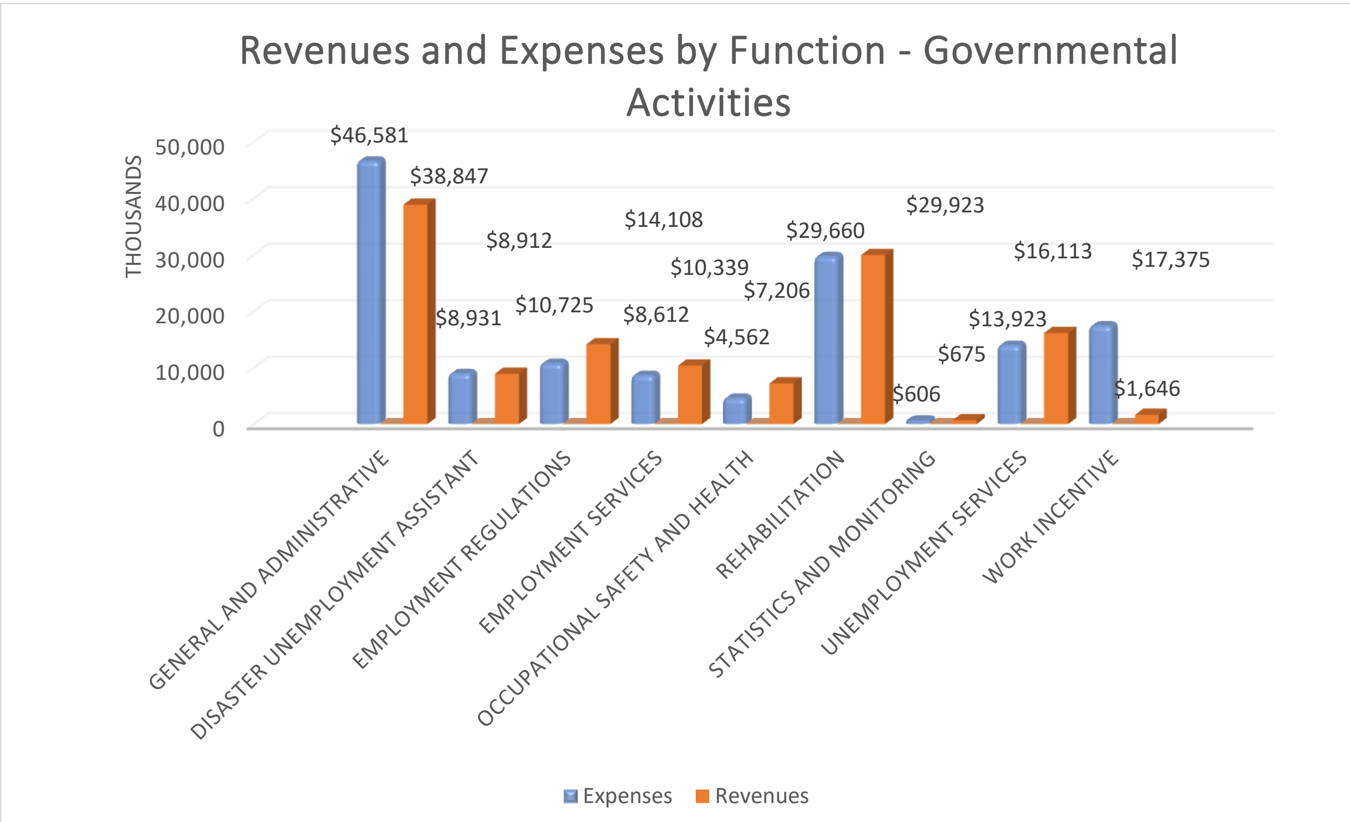
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following chart presents expenses and revenues comparison by function of the governmental activities for the year ended June 30, 2019:



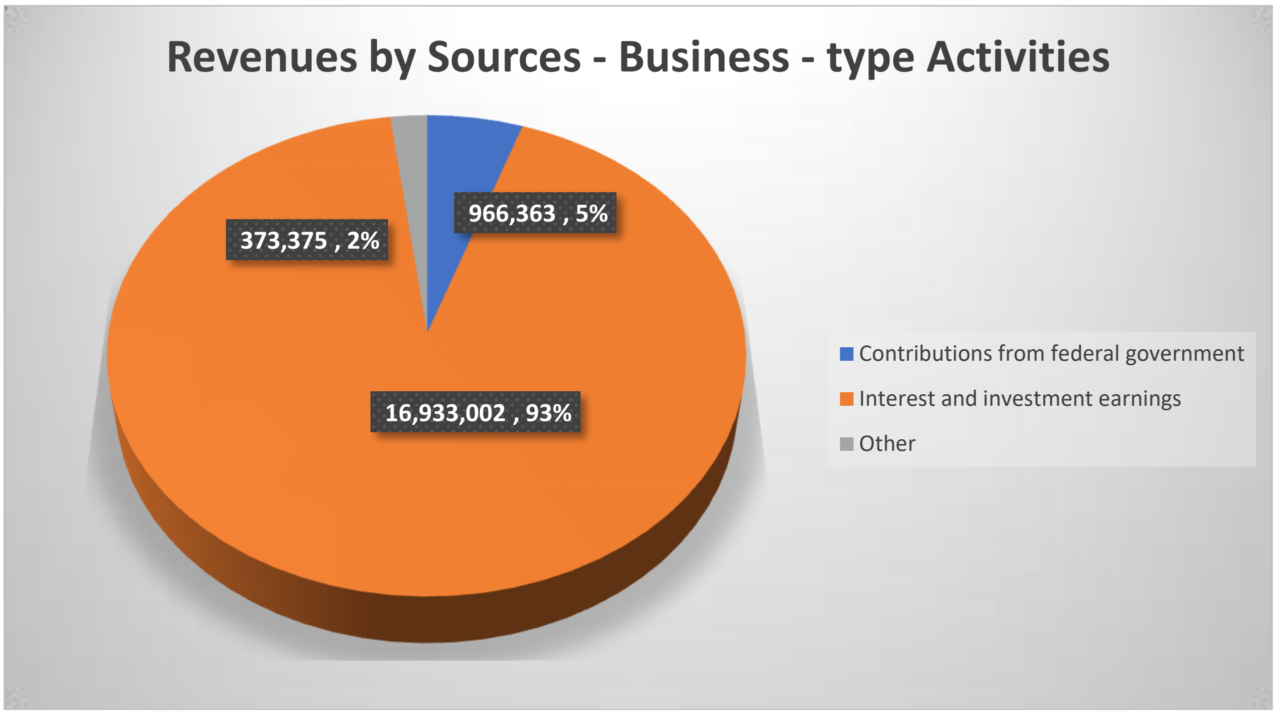
Business type- Activities

The **Department's** major sources of revenues are derived from the business-type activities, which represent 63.38% and 66.61% of total revenues from all sources for the years ended June 30, 2019 and 2018, respectively. Operating grants and contributions presented an increase of $10.7 million when compared with fiscal year 2018. This change was mainly due to increases in rehabilitation and unemployment federal grants received during the year 2019. Charges for services, consisting mainly of insurance premiums, presented a decrease of $7.97 million when compared with fiscal year 2018, representing a decrease of 3.98%. This change is due to decreases in the insurance premiums collected from Disability and Unemployment Insurance because of an improvement in the employment rate noted in Puerto Rico through the fiscal year 2019.

During the fiscal year ended June 30, 2019, the **Department** earned net investment income amounting to $16.9 million from different financial institutions, from which $82.8 thousand are considered unrestricted. Interest income derived from the Unemployment Insurance Program amounted to $14.8 million representing 87.6% of total investment income earned during the year

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following chart presents revenues by source of the business-type activities for the year ended June 30, 2019:



During the year 2019, the **Department** incurred expenses for the business-type activities amounting to $76.2 million related to benefits of unemployment insurance, temporary non-occupational disability insurance, drivers' social security insurance and Vocational Rehabilitation Administration programs claimed by eligible citizens. Total expenses decreased by $90.2 or million when compared with prior year expenses, resulting in a decrease of 54.2%. This change was directly related to a decrease in the unemployment claims.

Moreover, during fiscal year 2019, revenues from business-type activities exceeded expenses by $165.5 million.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

As noted earlier, the **Department** uses fund accounting to ensure and demonstrate compliance with finance related- legal requirements.

Governmental Funds:

The focus of the **Department's** governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the **Department's** financing requirements. Unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year. Total expenditures of the governmental funds exceeded total revenues by $13.2 million. This was offset by other financing sources, mainly transfers of funds amounting to $42.9 million from the enterprise funds for operational purposes. This year the excess of expenditures over revenues decreased by $9.4 million 43.62% when compared with prior fiscal year.

As of the end of the fiscal year 2019, the **Department's** governmental funds reported a combined ending fund deficit amounting to $179 million.

The general fund is the main operating fund of the **Department**. At the end of the current fiscal year, the fund deficit of the general fund was $290 thousand.

The fund balance (deficit) of the **Department's** general fund decreased by $340 thousand. This represents a 54% when compared to the general fund balance reported in the fiscal year 2018.

Enterprise Funds

The enterprise funds' financial statements provide the same type of information as the government-wide financial statements' business-type activities, only in more detail. As discussed in the government-wide financial analysis above, the **Department's** business-type activities net position, increased by $121.5 million. This is mainly due to an increase in net position of $111.3 million from the unemployment insurance fund. The following are some of the most important financial highlights of the enterprise funds' financial statements:

- The **Department's** enterprise funds reported combined ending net position of $786.2 million at the end of current year.

- Total operating revenues of the enterprise funds exceeded total operating expenses for a net operating income of $147.2 million.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

- Total benefits paid by the enterprise funds to eligible citizens during the year ended June 30, 2019 amounted to $67.1 million.

Agency Fund

At June 30, 2019, the **Department's** agency fund has cash available of $14.1 million to pay for unsettled claims between employers and employees. It represents an increase of approximately $400 thousand in the agency fund when compared to the fiscal year 2018.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Funds' final budget for the fiscal year ended June 30, 2019 was $7,036 million and the actual expenditures were $7,035 million. The total budget availability exceeded the total expenditures by $70 for the fiscal year.

The following table summarizes the budget and actual expenditures in budgetary basis for fiscal years ended June 30, 2019 and 2018, in thousands:

	2019 Original Budget	2018 Original Budget	Original Budget Change	2019 Final Budget	2018 Final Budget	Final Budget Change	Original & Final Budget Change Between 2019 & 2018	2019 Actual Amounts in Budgetary Basis	2018 Actual Amounts in Budgetary Basis	Actual Amounts Change
Revenues	$ 8,454	$ 21,911	$(13,457)	$7,036	$28,518	$(21,482)	$ (8,025)	$ 7,036	$ 28,518	$ (21,482)
Expenditures	8,454	21,911	(13,457)	7,036	28,518	(21,482)	(8,025)	7,036	24,204	(17,168)
Unexpended (Over-expended Balance)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,314	$ (4,314)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the **Department** are those assets that are used in the performance of its functions. The investment in capital assets (net of accumulated depreciation) as of June 30, 2019 amounted to a net book value of $6.4 million. Actual depreciation expense for the year amounted to $454 thousand. The following table summarizes capital assets, net of accumulated depreciation, for both governmental and business-type activities for the fiscal years ended June 30, 2019 and 2018, in thousands:

ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

	2019	2018	Change
Governmental Activities:			
Buildings	$ 5,463	$ 5,714	$ (251)
Furniture and equipment	778	922	(144)
Vehicles	124	-	124
	$ 6,365	6,636	(271)
Business-type Activities:			
Buildings	6	50	(44)
Furniture and equipment	6	10	(4)
Vehicles	-	-	-
	12	60	(48)
Total capital assets	**$ 6,377**	**$ 6,696**	**$ (319)**

Long-term Debt

The **Department's** long-term liabilities decreased by approximately $581 thousand when compared to fiscal year 2018, or 4.9%. The following table summarizes the long-term debt for both governmental and business-type activities for the fiscal years ended June 30, 2019 and 2018, in thousands:

	2019	2018	Change
Governmental Activities:			
Compensated absences	$ 7,373	$ 7,283	$ 90
Christmas bonus	673	714	(41)
Early retirement program	6,042	3,230	2,812
Total	14,088	11,227	2,861
Business-type Activities:			
Compensated absences	586	633	(47)
Total	**$ 14,674**	**$ 11,860**	**$2,814**

ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75

The GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"*, requires 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. 73. The **Department's** pension plan is administered by the Employees Retirement System Administration (ESR).

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

The ESR has not provided to the **Department** the financial and technical information necessary for the proper recognition and reporting of its net pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the **Department** could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the **Department's** financial statements do not report or disclose the required information for its pension plan.

In addition, the **Department's** pension plan administrator has not provided the **Department** with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2018 (**Department's** measurement date), necessary to comply with the requirements of GASB No. 75 "Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows\inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

ECONOMIC FACTORS

As mentioned before, the Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment rate, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading the Commonwealth's debt obligations ratings based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession. Moreover, as we explained below, during the month of September 2017, two hurricanes impacted Puerto Rico causing significant damages to the infrastructure and business activity in the Island.

- **Hurricanes Irma (DR-4336) and María (DR-4339)**

During the month of September 2017, Puerto Rico suffered the passing of Hurricane Irma and María, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. The Island was declared a major disaster area by the President of the United States on September 20, 2017 and approximately $508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered substantial losses due to infrastructure damages, looting during and after the hurricanes, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA) on the recovery of the Island, but the recuperation efforts have taken several months in order to bring back a certain level of normalcy to the everyday life of Puerto Rico's citizens. The U.S President and Congress have been working on the assignment of federal assistance of approximately $94 million, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

ECONOMIC FACTORS (CONTINUED)

- **Worldwide pandemic of Coronavirus (COVID-19)**

This event that has impact the **Department** is the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, in this case, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. While the disruption is expected to be temporary, there is a considerable uncertainty around the duration of the closings. Due to this, the DLHR expects that this matter should have an impact in its oncoming operating results, cause by a reduction in the operating grants an contributions revenues included business type operations.

On March 18, 2020, was signed into law the Families First Coronavirus Response Act (FFCRA), which provided additional flexibility for state unemployment insurance agencies and additional administrative funding to respond to the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27. It expanded states' ability to provide unemployment insurance for many workers impacted by the COVID-19 pandemic, including for workers who are not ordinarily eligible for unemployment benefits. The CARES Act also gives states the option of extending unemployment compensation to independent contractors and other workers who are ordinarily ineligible for unemployment benefits. Pandemic Unemployment Assistance (PUA) has been extended. New claims can be filed until March 13, 2021 and claimants with benefit weeks remaining after March 13, 2021 will receive PUA payments through the benefit week ending April 10, 2021.

NEXT YEAR'S BUDGET

The **Department's** budget for the fiscal year 2020, adopted at July 2019, amounts to approximately $209.7 million. The legislative appropriations amount to $122.3 million for the fiscal year 2020.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the **Department's** finances and to demonstrate the accountability of the funds administered by the **Department**. For questions regarding the information provided or additional financial information requests please, contact the Assistant Secretary of Management Affairs of the **Department of Labor and Human Resources**, P.O. Box 195540, San Juan, Puerto Rico 00919-5540.

Statement of Net Position

June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents in commercial banks	$111,530,528	$ 23,483	$111,554,011
Cash held by PR Secretary of Treasury	-	58,005,479	58,005,479
Accounts receivable:			
Insurance premiums, net	-	4,250,605	4,250,605
Accrued investment interest	-	170,717	170,717
Due from federal government	8,712,136	-	8,712,136
Other receivables	10,479	102,585	113,064
Inventories	-	180,635	180,635
Prepaid expenses	172,194	90	172,284
Internal balances	(2,418,851)	2,418,851	-
Restricted assets:			
Cash and cash equivalents in commercial banks	-	21,527,147	21,527,147
Cash held by US Treasury Department	-	687,202,157	687,202,157
Insurance premiums, net	-	46,168,016	46,168,016
Accrued insurance penalties, charges, and interests	-	825,899	825,899
Investments	-	28,046,277	28,046,277
Capital assets, net of accumulated depreciation	6,364,623	12,519	6,377,142
TOTAL ASSETS	**$124,371,109**	**$848,934,460**	**$973,305,569**
LIABILITIES:			
Accounts payable and accrued liabilities	$289,519,725	$ 1,291,200	$290,810,925
Unearned revenue	-	23,594,695	23,594,695
Due to other governmental entities	4,194,468	5,605	4,200,073
Insurance benefits payable	-	37,280,991	37,280,991
Long-term liabilities:			
Due within one year	6,270,360	246,037	6,516,397
Due in more than one year	7,817,524	340,318	8,157,842
TOTAL LIABILITIES	**$307,802,077**	**$62,758,846**	**$370,560,923**
NET POSITION (DEFICIT):			
Investment in capital assets	6,364,623	12,519	6,377,142
Restricted for payment of insurance benefits	3,295,450	722,800,505	726,095,955
Unrestricted (deficit)	(193,091,041)	63,362,590	(129,728,451)
TOTAL NET POSITION (DEFICIT)	**$ (183,430,968)**	**$786,175,614**	**$602,744,646**

The accompanying notes to the basic financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Activities
For the Year Ended June 30, 2019

		Program Revenues		Net Revenues (Expenses) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Net (Expenses) Revenues
Functions/Programs:						
Governmental Activities:						
General and administrative	$46,581,355	$ -	$38,846,899	$(7,734,456)	$ -	$(7,734,456)
Disaster unemployment assistant	8,930,840	-	8,911,515	(19,325)	-	(19,325)
Employment regulations	10,724,740	-	14,108,142	3,383,402	-	3,383,402
Employment services	8,611,734	-	10,339,432	1,727,698	-	1,727,698
Occupational safety and health	4,562,285	-	7,206,098	2,643,813	-	2,643,813
Rehabilitation services	29,659,652	-	29,923,473	263,821	-	263,821
Statistics and monitoring	605,964	-	675,150	69,186	-	69,186
Unemployment services	13,923,318	-	16,113,477	2,190,159	-	2,190,159
Work incentive	17,375,282	-	1,645,779	(15,729,503)	-	(15,729,503)
Total governmental activities	140,975,170	-	127,769,965	(13,205,205)	-	(13,205,205)
Business-type Activities:						
Unemployment insurance	65,442,883	205,049,879	966,363	-	140,573,359	140,573,359
Disability insurance	7,156,616	14,091,866	-	-	6,935,250	6,935,250
Driver's insurance	3,021,402	4,171,180	-	-	1,149,778	1,149,778
Vocational rehabilitation administration	628,360	140,981	373,375	-	(114,004)	(114,004)
Total business-type activities	76,249,261	223,453,906	1,339,738	-	148,544,383	148,544,383
Total	**$217,224,431**	**$223,453,906**	**$ 129,109,703**	**$ (13,205,205)**	**$148,544,383**	**$135,339,178**

	Governmental Activities	Business-type Activities	Net (Expenses) Revenues
General Revenues:			
Unrestricted investment earnings	$ 1,167,110	$ 16,933,002	$ 18,100,112
Transfers	42,936,683	(44,022,777)	(1,086,094)
Total general revenues and transfers	44,103,793	(27,089,775)	17,014,018
CHANGES IN NET POSITION	30,898,588	121,454,608	152,353,196
NET POSITION (DEFICIT) - beginning of year	(214,329,556)	664,721,006	450,391,450
NET POSITION (DEFICIT) - end of year	**$(183,430,968)**	**$786,175,614**	**$602,744,646**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Balance Sheet - Governmental Funds
June 30, 2019

	General Fund	Work Opportunity Incentive Fund	Vocational Rehabilitation Administration	Federal Funds	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents in commercial banks	$ -	$95,998,272	$ -	$ -	$15,532,256	$111,530,528
Due from:						
Federal Government	-	-	4,111,746	4,600,390	-	8,712,136
Other funds	-	1,575,971	204,126	104,975	6,827,029	8,712,101
Other receivables	-	1,836	-	8,643	-	10,479
Prepaid expenses	-	-	172,194	-	-	172,194
TOTAL ASSETS	**$ -**	**$ 97,576,079**	**$ 4,488,066**	**$4,714,008**	**$22,359,285**	**$129,137,438**
LIABILITIES AND FUND BALANCES (DEFICIT):						
LIABILITIES:						
Accounts payable	$ 289,941	$219,397,205	$4,712,565	$2,994,529	$62,125,485	$289,519,725
Due to other funds	-	-	-	-	11,130,952	11,130,952
Due to other governmental entities	-	2,826,413	-	-	1,368,055	4,194,468
Total liabilities	289,941	222,223,618	4,712,565	2,994,529	74,624,492	304,845,145
Deferred inflows of resources	-	1,575,971	-	1,719,479	-	3,295,450
FUND BALANCES (DEFICITS):						
Unassigned	(289,941)	(126,223,510)	(224,499)	-	(52,265,207)	(179,003,157)
Total fund balances (deficits)	(289,941)	(126,223,510)	(224,499)	-	(52,265,207)	(179,003,157)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICIT)	**$ -**	**$ 97,576,079**	**$4,488,066**	**$4,714,008**	**$22,359,285**	**$129,137,438**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

Total fund deficit per Balance Sheet - Governmental Funds		$ (179,003,157)
Amounts reported for governmental activities in the Statement of Net Position are different than the amount reported in the Balance Sheet - Governmental Funds because:		
Deferred inflows of resources reported in the governmental funds are recognized as revenue in the governmental activities		3,295,450
Capital assets used in governmental activities are not financial resources and therefore not recognized in the Balance Sheet - Governmental Funds:		
Depreciable capital assets	$ 25,236,344	
Accumulated depreciation	(18,871,721)	
Total capital assets		6,364,623
Some of the **Department's** liabilities are not due and payable in the current period and therefore are not recorded in the funds. Those liabilities consist of:		
Compensated absences	(7,372,770)	
Termination benefits	(6,041,600)	
Christmas bonus	(673,514)	
Total		(14,087,884)
Total Net Position of Governmental Activities		**$(183,430,968)**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) – Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Work Opportunity Incentive Fund	Vocational Rehabilitation Administration	Federal Funds	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Legislative appropriations	$7,036,000	$ -	$13,352,577	$ -	$ 3,620,251	$ 24,008,828
Intergovernmental federal grants	-	-	48,180,053	34,640,429	-	82,820,482
Donations from other governmental entities	-	-	-	-	17,551,750	17,551,750
Interest	-	1,040,091	-	-	127,019	1,167,110
Other	-	-	-	-	93,455	93,455
Total revenues	7,036,000	1,040,091	61,532,630	34,640,429	21,392,475	125,641,625
EXPENDITURES:						
General and administrative	6,695,665	-	32,090,809	133,663	4,714,915	43,635,052
Disaster Unemployment Assistant	-	-	-	8,913,296	-	8,913,296
Employment regulations	-	-	-	-	10,703,672	10,703,672
Employment services	-	-	-	6,391,672	2,203,145	8,594,817
Occupational safety and health	-	-	-	2,499,119	2,054,204	4,553,323
Rehabilitation services	-	-	29,601,389	-	-	29,601,389
Statistics and monitoring	-	-	-	604,774	-	604,774
Unemployment services	-	-	-	13,895,967	-	13,895,967
Work incentive	-	17,277,158	-	63,992	-	17,341,150
Total expenditures	6,695,665	17,277,158	61,692,198	32,502,483	19,675,936	137,843,440
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	340,335	(16,237,067)	(159,568)	2,137,946	1,716,539	(12,201,815)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	41,589,047	-	-	7,507,127	49,096,174
Transfers out	-	(1,224,503)	(1,086,094)	(2,137,946)	(1,710,948)	(6,159,491)
Total other financing sources (uses)	-	40,364,544	(1,086,094)	(2,137,946)	5,796,179	42,936,683
NET CHANGE IN FUND BALANCES (DEFICIT)	340,335	24,127,477	(1,245,662)	-	7,512,718	30,734,868
FUND BALANCES (DEFICIT):						
At Beginning of Year:	(630,276)	(150,350,987)	1,021,163	-	(59,777,925)	(209,738,025)
FUND BALANCES (DEFICIT) - End of year	**$(289,941)**	**$(126,223,510)**	**($ 224,499)**	**$ -**	**$(52,265,207)**	**$(179,003,157)**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net Change in Fund Balances - Governmental Funds		$30,734,868
Amounts reported for governmental activities in the Statement of Activities and changes in net position are different because:		
Revenues in the Statement of Activities that do not provide the use of current financial resources are not reported as revenues in the funds. These activities consist of:		3,295,450
Deferred inflows of resources		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlays	$ 135,392	
Depreciation expense	(406,704)	
Excess of capital outlays over depreciation expense		(271,312)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not recorded as expenditures. Those activities consist of:		
Increase in compensated absences	(89,796)	
Decrease in Christmas bonus	40,686	
Increase in termination benefits	(2,811,308)	
Total additional expenses		(2,860,418)
Change in Net Position of Governmental Activities		**$30,898,588**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Net Position - Enterprise Funds
For the Year Ended June 30, 2019

	Business-type Activities				
	Unemployment Insurance	**Disability Insurance**	**Drivers' Insurance**	**Vocational Rehabilitation Administration**	**Total Enterprise Funds**
ASSETS					
Current Assets:					
Cash and cash equivalents in commercial banks	$ -	$ -	$ -	$ 23,483	$ 23,483
Cash and cash equivalents in commercial banks-restricted	3,627,860	12,934,398	4,964,889	-	21,527,147
Cash held by PR Secretary of Treasury	26,405	46,044,806	11,934,268	-	58,005,479
Cash held by US Treasury Department-restricted	687,202,157	-	-	-	687,202,157
Receivables, net					
Insurance premiums	46,168,016	3,341,903	908,702	-	50,418,621
Accrued insurance penalties, charges, and interests	774,153	51,746	-	-	825,899
Accrued investment interest	-	170,717	-	-	170,717
Other	32,666	-	-	69,919	102,585
Inventories	-	-	-	180,635	180,635
Prepaid merchandise	-	-	-	90	90
Total current assets	737,831,257	62,543,570	17,807,859	274,127	818,456,813
Noncurrent Assets:					
Due from other funds	-	-	4,303,924	-	4,303,924
Restricted investments	-	28,046,277	-	-	28,046,277
Capital assets, net of accumulated depreciation	-	-	-	12,519	12,519
TOTAL ASSETS	**$ 737,831,257**	**$90,589,847**	**$ 22,111,783**	**$ 286,646**	**$850,819,533**
LIABILITIES AND NET POSITION					
Current Liabilities:					
Accounts payable	$ -	$ 985,873	$ 264,658	$ 40,669	$ 1,291,200
Due to other funds	1,680,947	-	-	204,126	1,885,073
Unearned revenue	22,014,378	1,563,357	16,960	-	23,594,695
Due to other governmental entities	-	815	4,790	-	5,605
Compensated absences	-	170,156	56,724	19,157	246,037
Insurance benefits payable	36,736,161	431,307	113,523	-	37,280,991
Total current liabilities	60,431,486	3,151,508	456,655	263,952	64,303,601
Noncurrent Liabilities:					
Compensated absences	-	255,233	85,085	-	340,318
TOTAL LIABILITIES	**$ 60,431,486**	**$ 3,406,741**	**$ 541,740**	**$ 263,952**	**$64,643,919**
Net Position:					
Invested in capital assets, net of related debt	-	-	-	12,519	12,519
Restricted for payment of insurance benefits	677,399,771	40,549,368	4,851,366	-	722,800,505
Unrestricted	-	46,633,738	16,718,677	10,175	63,362,590
TOTAL NET POSITION	**$ 677,399,771**	**$87,183,106**	**$ 21,570,043**	**$ 22,694**	**$786,175,614**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds
For the Year Ended June 30, 2019

	Business-type Activities				
	Unemployment Insurance	Disability Insurance	Drivers' Insurance	Vocational Rehabilitation Administration	Total Enterprise Funds
OPERATING REVENUE					
Insurance premiums	$ 205,049,879	$ 14,091,866	$ 4,171,180	$ -	$ 223,312,925
Net Sales	-	-	-	140,981	140,981
Total operating revenue	205,049,879	14,091,866	4,171,180	140,981	223,453,906
COST OF SALES					
Material, direct labor, indirect cost	-	-	-	296,869	296,869
Total cost of sales	-	-	-	296,869	296,869
EXCESS OF COST OVER SALES	-	-	-	(155,888)	(155,888)
OPERATING EXPENSES:					
Insurance benefits	65,183,617	1,295,280	594,949	-	67,073,846
General and administrative expenses	259,266	5,861,336	2,426,453	331,491	8,878,546
Total operating expenses	65,442,883	7,156,616	3,021,402	331,491	75,952,392
OPERATING INCOME (LOSS)	139,606,996	6,935,250	1,149,778	(487,379)	147,204,645
NON-OPERATING REVENUES (LOSS):					
Contributions from federal government	966,363	-	-	-	966,363
Interest and investment earnings	14,756,854	2,093,303	82,845	-	16,933,002
Appropriations from central government	-	-	-	373,375	373,375
Total non-operating revenues	15,723,217	2,093,303	82,845	373,375	18,272,740
INCOME (LOSS) BEFORE TRANSFERS	155,330,213	9,028,553	1,232,623	(114,004)	165,477,385
TRANSFERS OUT	(44,022,777)	-	-	-	(44,022,777)
NET CHANGE IN NET POSITION	111,307,436	9,028,553	1,232,623	(114,004)	121,454,608
NET POSITION - Beginning of year	566,092,335	78,154,553	20,337,420	136,698	664,721,006
NET POSITION - End of year	**$ 677,399,771**	**$87,183,106**	**$21,570,043**	**$ 22,694**	**$786,175,614**

The accompanying notes to the basic financial statements
are an integral part of this financial statement.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Cash Flows - Enterprise Funds
For the Year Ended June 30, 2019

	Unemployment Insurance	Disability Insurance	Drivers' Insurance	Vocational Rehabilitation Administration	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from insurance taxes	$ 218,945,592	$ 13,830,342	$ 4,289,142	$ -	$ 237,065,076
Payments from customers	-	-	-	120,140	120,140
Payments to suppliers	(259,266)	(1,845,941)	(727,492)	(547,984)	(3,380,683)
Payments to employees	-	(3,982,891)	(1,647,395)	-	(5,630,286)
Payments for insurance benefits	(79,655,706)	(1,313,412)	(610,817)	-	(81,579,935)
Net cash provided by operating activities	139,030,620	6,688,098	1,303,438	(427,844)	146,594,312
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Contributions from federal government	966,363	-	-	373,375	1,339,738
Transfers from (to) other funds	(48,481,220)	-	2,781,951	30,956	(45,668,313)
Net cash provided by (used in) financing activities	(47,514,857)	-	2,781,951	404,331	(44,328,575)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on deposits, investments, and loans	14,756,854	2,093,303	82,845	-	16,933,002
Proceeds from sales and maturities of investments	-	10,535,081	-	-	10,535,081
Purchase of investments	-	(11,763,375)	-	-	(11,763,375)
Net cash provided by (used in) investing activities	14,756,854	865,009	82,845	-	15,704,708
NET CHANGE IN CASH AND CASH EQUIVALENTS	106,272,617	7,553,107	4,168,234	(23,513)	117,970,445
CASH AND CASH EQUIVALENTS - Beginning of year	584,583,805	51,426,097	12,730,923	46,996	648,787,821
CASH AND CASH EQUIVALENTS - End of year	**$ 690,856,422**	**$ 58,979,204**	**$16,899,157**	**$ 23,483**	**$766,758,266**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating income (loss)	$ 139,606,996	$ 6,935,250	$ 1,149,778	$ (487,379)	$ 147,204,645
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	-	-	-	60,078	60,078
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	14,926,039	(152,198)	195,584	(20,841)	14,948,584
(Increase) decrease in inventories	-	-	-	54,677	54,677
(Increase) decrease in other assets	-	-	-	10,822	10,822
Increase in accounts payable and accrued liabilities	-	56,514	(13,647)	(48,430)	(5,563)
Increase (decrease) in unearned revenues	(1,030,326)	(109,326)	5,223	-	(1,134,429)
Increase due to other governmental entities	-	(376)	(3,450)	-	(3,826)
Increase (decrease) in compensated absences	-	(35,917)	(14,182)	3,229	(46,870)
Increase (decrease) in insurance benefits payable	(14,472,089)	(5,849)	(15,868)	-	(14,493,806)
Total adjustments	(576,376)	(247,152)	153,660	59,535	(610,333)
Net cash provided by (used in) operating activities	**$139,030,620**	**$ 6,688,098**	**$1,303,438**	**$ (427,844)**	**$146,594,312**

The accompanying notes to the basic financial statements are an integral part of this financial statement.

Statement of Net Position - Agency Funds
June 30, 2019

ASSETS	
Cash and cash equivalent in commercial banks	$14,128,996
TOTAL ASSETS	$14,128,996
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Accounts payable	$14,128,996
TOTAL LIABILITIES	$14,128,996

The accompanying notes to the basic financial statements are an integral part of this financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Reporting Entity

The **Department of Labor and Human Resources of the Commonwealth of Puerto Rico** (the **Department**) is an Executive Department of the Commonwealth of Puerto Rico (the Commonwealth) created by Act 15 of April 14, 1931, as amended, to promote the working-class welfare, improve the job conditions, and help reduce unemployment in Puerto Rico. The Governor of the Commonwealth appoints the Secretary of the **Department**.

The **Department** is included for financial reporting purposes as an instrumentality of the Commonwealth's financial statements. Its governmental funds financial data is included as part of the general government section in the general fund, while its enterprise funds financial data is included as part of the business-type activities for proprietary funds of the Commonwealth's basic financial statements.

On November 14, 2011, the Reorganization Plan Number 9 was created to amend Act No. 15 of April 14, 1931, which originally created the **Department**. Effective January 8, 2012, the **Department** was reorganized to merge and transfer all the operations, personnel, assets, functions, and powers of the agencies: Future Entrepreneurs and Worker's Training Administration (FEWTA) and Right to Employment Administration (REA) to the **Department**.

The FEWTA was created to provide educational improvement services, vocational training, work experience, supportive service, and community action improvement to young people in Puerto Rico. Its operations are funded through an annual budget appropriation approved by the legislative bodies of the Commonwealth, and through financial assistance received from federal agencies. FEWTA operates through several resident centers, workshops, and various other training programs.

The REA was responsible for the implementation of policies and the administration of federal programs aimed at providing work opportunities incentives through the island.

The accompanying basic financial statements of the **Department** have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). These basic financial statements present the financial position, the results of operations of the **Department** and its various funds and fund types, and the cash flows of the enterprise funds. The basic financial statements are presented as of June 30, 2019, and for the fiscal year then ended. These statements also include the Vocational Rehabilitation Administration (the Administration), which is an organizational component of the **Department**.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation and Reporting Entity (Continued)

Vocational Rehabilitation Administration

The Administration was created by Act No. 414 of May 13, 1947. The Administration is ascribed to the **Puerto Rico Department of Labor and Human Resources** pursuant to the provisions of Act 97 of June 10, 2000. The Administration provides rehabilitation services to individuals with physical and/or mental disabilities and assists those individuals in obtaining an employment and improving their quality of life and self-esteem.

Complete financial statements of the Administration can be obtained directly by contacting its administrative offices at:

Vocational Rehabilitation Administration PO Box 191118
San Juan, PR 00919-1118

Component Unit

A component unit is a legally separate entity, for which the **Department** is financially accountable, or the nature or significance of their relationship with the **Department** is such, that their exclusion would cause the **Department's** basic financial statement to be misleading or incomplete. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity, or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. US GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the **Department's** balances and transactions or discrete presentation of the component unit's financial data in columns separate from the **Department's** balances and transactions. Based on the above criteria there are no potential component units that should be included as part of the financial statements.

The accompanying basic financial statements present the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Department**, as of June 30, 2019, the respective changes in financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2019, and the cash flows of the proprietary fund for the fiscal year ended June 30, 2019 in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation and Reporting Entity (Continued)

Component Unit (Continued)

As further explained on **Notes 11** and **12**, the Employees Retirement System of the Commonwealth of Puerto Rico did not provide the **Department** the information needed for the adoption of 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"*. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information required by GASB No. 73 and GASB Statement No. 75.

B. Government-Wide and Fund Financial Statements

Government-wide Financial Statements -The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the **Department**. The effect of inter-fund balances has been removed from the government-wide Statement of Net Position, except for the residual amounts due between governmental and business-type activities. Inter-fund charges for services among functions of the government-wide Statement of Activities have not been eliminated. The **Department's** activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for services and interest earned on investment securities.

The Statement of Net Position presents the **Department's** assets and liabilities, with the difference reported as net position. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) fees and charges to customers for services rendered or for privileges provided by a given function, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the **Department** that are reported in the accompanying basic financial statements have been classified into governmental, enterprise and agency funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, enterprise funds and agency funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column, except for those governmental non-major funds, which management has elected to present separately in the financial statements. In the case of governmental funds, each individual agency of the **Department** has been reported as a separate major fund in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation

Government-wide Financial Statements

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

Governmental Funds Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the **Department** considers revenues to be available if they are collected within sixty (60) days, to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to the intergovernmental revenues related to federal grants, there are essentially two types of revenue. For most grants, moneys must be expended by the **Department** on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements.

These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditures are generally recognized when the related liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Governmental Funds Financial Statements (Continued)

1. Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2019, has been reported only in the government-wide financial statements.

2. Executory purchase orders and contracts are recorded as a reservation of fund balance.

Enterprise and Agency Funds

The financial statements of the enterprise and agency funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

The accounting and reporting policies of the **Department** conform to US GAAP, as applicable to governmental entities. The **Department** follows GASB Statements under the hierarchy established by GASB Statement No. 76, *"The Hierarchy of Generally Accepted Principles for State and Local Governments*", in the preparation of its basic financial statements.

Enterprise funds distinguish between operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The major operating revenues of the **Department** are as follows:

- **Unemployment Insurance Fund** - Amounts for charges made to individual employers for payment of unemployment benefits.

- **Disability Insurance Fund** - Amounts for charges made to individual employers for payment of temporary non-occupational disability benefits.

- **Drivers' Insurance Fund** - Amounts for charges made to individual employers for payment of benefits for drivers in Puerto Rico. Also, provides benefits for health and life insurance.

- **Vocational Rehabilitation Administration** - Accounts for operating revenues of the program for the Industry of Blind and Physical, Mental and Development Disabilities Persons.

Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The major non-operating revenues of the **Department's** enterprise funds are mainly contributions from the federal government under various extended unemployment benefits programs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Governmental Funds - The **Department** reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Major funds are determined using a predefined percentage of assets, liabilities, revenue, or expenditures/expenses of either the fund category or the governmental and enterprise funds combined.

The non-major funds are combined in a single column in the fund financial statements column, except for those governmental non-major funds, which management has elected to present separately in the financial statements.

The **Department** reports the following major governmental funds:

General Fund - is the fund includes the current financial resources, which relate to the general operations of the **Department**. These operations consist of the general administration and other activities. Its revenues consist mainly of legislative appropriations from the Commonwealth.

Work Opportunity Incentive Fund - is the fund that accounts for revenues derived from state or other restricted revenue source, for the uses and limitations specified by state statutes to promote job opportunities and the creation of high demand employments in current markets.

Vocational Rehabilitation Administration - is the fund that accounts for revenues derived from state and federal grants for rehabilitation services, improvements and maintenance to facilities and other funds.

Federal Funds - is the fund that account for revenues derived from federal grants source, for the uses and limitations specified by federal statutes.

Other Governmental Funds - is the fund in which all governmental activity, except those which is required to be recorded for in another fund, is accounted for. Its revenues consist mainly of intergovernmental revenues.

The **Department** also reports the enterprise funds. These are the funds that account for the operations of the **Department** that are financed and operated in a manner to those often found in the private sector. The **Department** reports the following major enterprise funds:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Unemployment Insurance Fund - It is used to account for contributions made by employers to provide unemployment benefits under the State Unemployment Insurance Program created by Act 74 on June 21, 1956.

Disability Insurance Fund - It is used to account for disability benefits to remedy temporarily the loss of income because of disability caused by sickness or accident unrelated to the employment under the Temporary Non-occupational Disability Insurance Program created by Act 139 on June 26, 1968.

Drivers' Insurance Fund - It is used to account for contributions made by the drivers and their employers to provide a social security plan for the benefit of the drivers in Puerto Rico under the Drivers' Social Security Insurance Program created by Act 428 on June 15, 1950. The plan also includes benefits for health and life insurance.

Vocational Rehabilitation Administration – It is used to account for account for the program designed to establish and organized workshops that provide training, employment and other services for the rehabilitation of individuals who are blind, mental or that have other delay physical disability.

The **Department's** enterprise funds provide unemployment compensation, non-occupational disability, and drivers' insurance coverage to public and private employees through various insurance programs administered by the **Department**. These insurance programs cover workers against unemployment, temporary disability, or death because of work or employment related accidents or because of illness suffered because of their employment.

State Unemployment Insurance Program - The structure of the Federal-State UI Program partnership is based upon federal law; however, it is implemented primarily through state law. Unless otherwise noted, responsibilities of the US Department of Labor (US DOL) include: (1) allocating available administrative funds among states; (2) administering the Unemployment Trust Fund (UTF) through the US Treasury and monitoring activities of the UTF; (3) establishing program performance measures; (4) monitoring state performance; (5) ensuring conformity and substantial compliance of state law and operations with federal law; and (6) setting broad overall policy for program administration. State UI program operations are accounted for in the **Department's** Unemployment Insurance Fund. State responsibilities include: (1) establishing specific, detailed policies and operating procedures which comply with the requirements of federal laws and regulations; (2) determining the State UI tax structure; (3) collecting State UI contributions from employers (commonly called "unemployment taxes"); (4) determining claimant eligibility and disqualification provisions; (5) making payment of Regular Unemployment (UC) benefits to claimants; (6) managing the program's revenues and benefit administrative functions; (7) administering the programs in accordance with established policies and procedures; and (8) enacting State UC law that conforms with Federal UC law.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

The Federal Unemployment Tax Act (FUTA) imposes a federal tax on covered employers. Currently, the FUTA tax on covered employment (generally Employment subject to a State UI tax) is 6% of the first $7,000 of covered employee wages.

Employers, however, receive two credits against the FUTA tax. One credit is equal to the amount of State UI tax paid by the employer. The employer receives this credit when the State UI law, and its application, conforms and substantially complies with FUTA requirements.

A second credit is awarded only to employers in states which have a federally approved experience-rate State UI tax system. All states currently meet the federal criteria for both credits to be applicable to the states' employers. The two credits combined cannot exceed 5.4% of taxable employee wages.

FUTA revenues from the remaining 0.6% are collected by the IRS and deposited into the general fund of the US Treasury, which by statute are appropriated to the UTF. FUTA revenues are used primarily to finance federal and state administrative expenses, the federal share of Extended Benefits (EB) and advances to states whose UTF account balances are low or exhausted. US DOL allocates available administrative grant funds (as appropriated by Congress) to states based on forecasted workload and costs and adjusted for increases or decreases in workload during the current year.

The quarterly tax rate imposed for the State UI Program is computed based on experience rates determined for each employer individually. In addition, a special tax of 1% of taxable compensation will be collected from all nongovernmental employers to promote activities related to the creation of jobs and other related working initiatives. However, the total tax imposed will never be more than 5.4% of the taxable salaries as established by federal regulations.

Unemployment benefits are provided under UC and the EB programs as follows:

UC provides benefits to workers generally after a waiting period of one week of unemployment, provided that each claimant has worked during a base period generally established as the first four (4) of the last five (5) completed calendar quarters prior to filing the claim. A waiting period is defined as a non-compensate period of unemployment for such acts as leaving voluntarily without good cause, discharge for misconduct connected with work, and refusal of suitable work.

The normal benefit will be dependable on the worker's age and weeks of work covered employment in the base period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

EB provides benefits for claimants that have exhausted the UC. To be eligible for a work of EB, a claimant must apply for and be able to and available to accept suitable work, if offered. What constitutes suitable work is dependent on a required evaluation of the claimant's employment prospects and as part of this process the claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" that he or she has done so.

Temporary Non-occupational Disability Insurance Program - This program consists of a benefit plan for workers. A tax of .6% is levied by the program of which the employer and employee pays .3% each. Taxable amount is limited to the first $9,000 of the employee's yearly salary. Contributions received under the program are accounted for in the **Department's** Disability Insurance Fund and are deposited in an interest-bearing account to provide for future claims, as established by law.

Disability benefits are provided for a maximum of 26 weeks to workers that have suffered accidents or illness not related to the workplace. Disbursements per week will range from $12 to $113 and are dependent on the claimant's salary. To qualify for benefits, claimants must also comply with certain working time as established in the regulations.

Drivers' Insurance Program - This program provides benefits to workers that use motor vehicles as part of their job duties. The program's benefits include payments to claimants due to death, disability, and other benefits to dependents. Funding for the program is provided by a quarterly contribution of eighty cents per employee of which the employer pays thirty cents and fifty cents are paid by the employee. The program's operations are accounted for in the **Department's** Drivers' Insurance Fund.

Workers claiming benefits under this program must have worked at least 25 weeks prior to any claim related to disability benefits, and at least 10 weeks for death benefits. Benefits payable are calculated in a similar fashion as benefits paid in the disability program, but claimants must be workers that use a motor vehicle as part of their primary job duties.

Taxes and contributions of all programs are due the next day following the levy date, although a 30-day grace period is provided. All the above taxes and contributions are recognized as operating revenues in the corresponding enterprise fund.

Agency Funds - These are the funds that account for the assets held by the **Department** as a trustee or agent for individuals, private organizations and/or governmental units and, therefore, are not available to support the **Department's** own programs. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Accounting

The **Department's** budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with US GAAP. Revenues are generally recognized when cash is received, and expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances will lapse the year following the end of the fiscal year when the encumbrances were established, as prescribed by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at year-end. Amounts required for the settlement of claims and judgments against the **Department**, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the **Department** uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The Budgetary Comparison Schedule - General Fund presents only the information for the general fund for which there is a legally adopted budget, as required by US GAAP. See notes to Budgetary Comparison Schedule - General Fund for a reconciliation of such statement with the Statement of Revenues, Expenditures, and Changes in Fund Balance for the general fund and the Administration nonfederal amounts. The other governmental funds do not have a legally mandated budget.

E. Cash and Cash Equivalents

Cash accounts of the **Department** as presented in the Balance Sheet - Governmental Funds are mainly held by the Department of Treasury of the Commonwealth of Puerto Rico (PR Treasury). All the disbursements are made through a local commercial bank. The **Department** considers currency on hand, demand deposits and highly liquid investments (including restricted cash purchased with a maturity of three (3) months or less) to be cash equivalents).

The **Department** has a certificate of deposit (CD) held by the Economic Development Bank (EDB), with a three-month maturity, therefore considered a cash equivalent. The purpose of this CD is to serve as collateral to the loans made to young entrepreneurs, alumni of the Entrepreneurship Program. The deposit bears interest at the rate resulting from the difference between the LIBOR rate of three (3) months less point three seventy-five (.375) of one percent (1%). As of June 30, 2018, the interest rate was point twenty seventy-five percent (.25). As described in **Note 2**, such CD was fully reserved as of June 30, 2018. Cash balances not held at GDB are controlled by various special collector officials and deposited in qualified depositories. Under the Commonwealth's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents (Continued)

All securities pledged as collateral are held by the Secretary of the PR Treasury. The Puerto Rico Unemployment Insurance Trust Fund is maintained to account for the collection of unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants. As required by federal law, all resources not necessary for current benefit payments are placed on deposit with the US Treasury. Interest earned over such deposit is maintained in the fund.

F. Restricted Investments

Investments include US Government and agencies' obligations, mortgage-backed securities, and corporate debt and equities. Investment securities are presented at fair value. Changes in the fair value of investments are presented as investment earnings (losses) in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Net Position - Enterprise Funds. Fair value is determined based on quoted market prices. When securities are not listed on national exchanges, quotations are obtained from brokerage firms.

G. Receivables

Unemployment, disability and drivers' insurance receivables in the enterprise funds are stated net of estimated allowance for uncollected accounts, which are determined based upon past collection experience. Intergovernmental receivables primarily represent amounts owed to the **Department** for reimbursement of expenditures incurred pursuant to the federally-funded programs.

H. Inventories

Inventories are stated at the lower of cost or market and predominantly on a first-in, first-out basis. Inventories are recorded as expenditures when purchased, rather than capitalized as an asset. Only significant amounts of inventories at the end of the year are capitalized in the governmental funds. A fund balance reserve equal to the value of the inventories is established in the general fund and in other governmental funds to indicate that the inventories do not constitute expendable financial resources available for appropriation. However, inventories are capitalized in the Statement of Net Position of the business-type activities and in the enterprise funds' Statement of Net Position.

I. Restricted Assets

Funds set aside for specified purposes are classified as restricted assets, since their use is limited for a specific purpose by applicable agreements or required by law. Restricted assets in the enterprise funds mainly include amounts set aside for the payment of unemployment and disability insurance benefits.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Capital assets, which include buildings, furniture, equipment, and vehicles, are stated at cost less accumulated depreciation, and are reported in the governmental activities' column in the government-wide financial statements. The **Department** defines capital assets as assets that have an initial individual cost of $25,000 or more at the date of acquisition and have a useful life of five (5) or more years, while the Administration use an initial individual cost of $500, respectively. Such assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at acquisition value at the time of donation. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are charged to expense as incurred.

Several buildings, including related improvements, owned or under capital lease by the **Department** are recorded as capital assets of the Department of Transportation and Public Works of the Commonwealth. Accordingly, all major improvements and betterments done by the **Department** are charged to expenditures in the governmental funds financial statements and reported as an expense in the government-wide financial statements.

Capital assets utilized in governmental funds are recorded as expenditures in the governmental fund's financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the enterprise funds financial statements. Capital assets of the **Department** are depreciated using the straight-line basis over the estimated useful lives of the depreciable assets. Estimated useful lives are as follows:

	Years
Buildings	30
Furniture and equipment	5 - 10
Computer equipment and software	5
Vehicles	5 - 10

The **Department** follows the provisions of GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries - an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries.

K. Unearned Revenue

Unearned revenue arises when resources are received before the **Department** has a legal claim to them, as well as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria are met, or when the **Department** has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue are recognized. Unearned revenue at the government wide and enterprise funds level arises only when the **Department** receives resources before it has a legal claim to them.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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 government has three (3) 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 of the governmental funds and in the government-wide statement of net position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

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.

3. **Deferred outflows/inflows of resources related to pensions** - Amounts reported for changes in calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between the **Department's** contributions and proportionate share contributions; and e) **Department's** contributions subsequent to the measurement date.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Benefits Payable

Benefits payable arise from participants' insurance benefit claims of the unemployment, disability and drivers' insurance programs in the enterprise funds. Liabilities for incurred but unpaid benefits and for benefit adjustment expenses are based on the ultimate cost of settling the benefits. Insurance benefit claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The insurance benefits liability is reported as a current liability in the accompanying Statement of Net Position for Business-type Activities and the Statement of Net Position - Enterprise Funds.

N. Long-term Obligations

The liabilities reported in the government-wide financial statements include the **Department's** compensated absences obligations (vacation and sick leave), accrued pension plan obligation (early retirement program), and the employees' Christmas bonus. Long-term obligations financed by the enterprise funds are recorded as liabilities in those funds.

O. Compensated Absences

Prior to April 29, 2017, the **Department's** employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. The **Department's** employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated vacation time at the current rate, if the employee has at least 10 years of service with the Commonwealth. Accrued compensated benefits are accrued when incurred in the government-wide financial statements, and in the enterprise funds financial statements, when the employee meets such criteria. Such compensated benefits accrual also includes related estimated payroll taxes.

The "Public Service Personnel Law" required the **Department** unit to pay annually the accumulated vacation and sick leave earned in excess of the limits mentioned above. As a result of Act No. 66 of June 17, 2014 (also known as the Fiscal Operation and Sustainability Act) some of these excess accumulations are no longer going to be payable to employers.

On April 29, 2017, Act No. 26 to create the "Fiscal Plan Compliance Act," in order to take measures as necessary to adjust the existing legal and juridical framework so as to allow the fullest compliance with the Fiscal Plan approved by the Financial Oversight Board, created by virtue of the Federal Law PROMESA; establish a uniform fringe benefit system, which includes the Christmas bonus and the healthcare plan contribution, for all the government employees and officials of the agencies, instrumentalities, and public corporations of the Government of Puerto Rico, except for the University of Puerto Rico. Among other measures, the Act reduces accumulation of vacation leave to a new rate of 1.25 days per month up to a maximum of 60 days and 8 hours of sick leave (12 days per year).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Compensated Absences (Continued)

As described on **Note 18**, on December 16, 2019, the Government enacted Act No. 176 to increase annual vacation days to 30 days. Also, increase sick leave days to 18 days for employees hire before the effectiveness of this Act.

P. Accounting for Pension Costs

The **Department** accounts for pension costs in accordance with the requirements of GASB Statement No. 68 as a participant employer of the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). Accordingly, pension costs are reported based on its pension liability, pension expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the Plan.

Effective on July 1, 2017, the **Department** 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 expenditures\expenses in the financial statements.

Accordingly, at that date, the **Department** shall implement the requirements set forth by GASB Statement No. 73 *"Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68"*

Q. Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* is effective for the **Department** starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective OPEB liability, OPEB expense and deferred outflows/inflows of 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 2018 basic financial statements, nor has it provided to the **Department** with the required information to implement the referred accounting pronouncement. The **Department's** contribution for OPEB is included as part of the PayGo charges billed monthly by the Puerto Rico Department of Treasury ("PRDT"). PayGo payments are recorded as expenditures\expenses in the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balances and Net Position

The fund balance classifications are as follows:

Non-expendable: Amounts that cannot be spent because are either (a) not in expendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed: Amounts that can be used only for the specific purposes determined by a formal action of the **Department's** highest level of decision-making authority. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority for the **Department** removes or changes the specified use by taking the same type of action it employed to commit those amounts.

Assigned: Amounts are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned: Is the residual classification for the **Department's** general fund and includes all expendable amounts not contained in other classifications. For all other governmental funds, the unassigned classification is used only to report a deficit balance resulting from the overspending for specific purposes for which amounts had been restricted, committed, or assigned.

In the government-wide statements the net position is segregated in three (3) categories:

- **Net Invested in capital assets:** It consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted net position:** It result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position:** It consists of net position that does not meet the definition of the two (2) preceding categories. Unrestricted net position often is designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balances and Net Position (Continued)

In the government-wide financial statements, when both restricted and unrestricted resources are available for use, it is the **Department's** policy to use restricted resources first and then the unrestricted resources, as they are needed. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then, unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. Part of the deficit shown in the unrestricted fund balance within the governmental activity's column in the Statement of Net Position is comprised of the deficit from the Work Opportunity Incentive Fund. Deficit arises mainly from the excess of the administrative costs related to the various job opportunity programs created by this fund over the restricted revenue sources it receives which are established by law.

S. Encumbrances

Encumbrances accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by governmental funds during the fiscal year to control expenditures. The cost of those goods received, and services rendered on or before June 30 are recognized as expenditures.

For GAAP reporting purposes, encumbrances outstanding at year-end are reported within the restricted, committed, and assigned GAAP fund balance classifications and do not constitute expenditures or liabilities on GAAP basis because the commitments will be honored during the subsequent year.

T. Inter-fund and Intra-entity Transactions

The **Department** has the following types of transactions among funds:

Inter-fund Transfers - legally required transfers that are reported when incurred as transfer-in by the recipient fund and as transfer-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances among funds are also presented as amounts due to and due from other funds. However, these transfers and related amounts receivables and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-entity Transactions - Intra-entity transactions are resource flows among the **Department** and component units of the Commonwealth. These resource flows and related outstanding balances are reported as if they were external transactions. However, resource flows among the **Department** and its agencies are classified as inter-fund transactions, as described above.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Risk Management

The **Department** carries commercial insurance to cover property and casualty, theft, tort claims and other losses of the **Department**. Insurance policies are negotiated by the PR Treasury and costs are allocated among all the governmental units of the Commonwealth. Cost of insurance allocated to the **Department** and reimbursed to the PR Treasury amounted to $212 thousand for the fiscal year ended June 30, 2019. The current insurance policies have not been cancelled or terminated.

The State Insurance Fund Corporation, a component unit of the Commonwealth, provides workmen compensation insurance to cover the employees of the **Department**. The **Department's** workmen compensation insurance expenditures amounted to $1.5 million for the fiscal year ended June 30, 2019. In the past three years, the **Department** has not settled claims that exceed insurance coverage.

V. Reclassifications

Certain reclassifications have been made to the information presented in the separately issued financial statements of the **Department's** organizational component agencies to conform to the accounting classifications used by the **Department** in the basic financial statements.

W. Use of Estimates

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

X. Adoption of new accounting pronouncements

Effective July 1, 2018, the **Department** adopted the provisions of the following GASB Statements:

- **GASB Statement No. 83, "*Certain Asset Retirement Obligation*"**, was issued in November 2016. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Adoption of new accounting pronouncements (Continued)

- **GASB No. 84, '*Fiduciary Activities*',** was issued in January 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments.

- **GASB Statement No. 88 "*Certain Disclosures related to debt, including direct borrowings and direct placements*"**. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

  For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

  The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

- **GASB Statement No. 89, "*Accounting for Interest Costs Incurred Before the End of a Construction Period*":** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Adoption of new accounting pronouncements (Continued)

- **GASB Statement No. 89, "*Accounting for Interest Costs Incurred Before the End of a Construction Period*" (*Continued*):** This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement.

  This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

- **GASB Statement No. 90, "*Majority Equity Interest – An Amendment of GASB Statements No. 14 and 61*":** The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

  A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

  For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Adoption of new accounting pronouncements (Continued)

- **GASB No. 95, '*Postponement of the Effective Dates of Certain Authoritative Guidance*'**, was issued in May 2020. The requirements of this Statement are effective immediately. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The implementation of these Statements has no significant impact on the **Department's** financial statements for the fiscal year ended June 30, 2019.

Y. Future Adoption of Accounting Pronouncements

- **GASB No. 87, '*Leases*'**, was issued in June 2017. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments.

- **GASB No. 91, '*Conduit Debt Obligations*'**, was issued in May 2019. The provisions of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

- **GASB No. 92, '*Omnibus 2020*'**, was issued in January 2020. The requirements of this Statement are effective as follows:

  - The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

  - The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Future Adoption of Accounting Pronouncements (Continued)

GASB No. 92, '*Omnibus 2020*' (Continued)

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.

- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

- **GASB No. 93, '*Replacement of Interbank Offered Rates*'**, was issued in March 2020. The requirements of this Statement, except for paragraph 11b, are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. Earlier application is encouraged. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

- **GASB No. 94, *'Public-Private and Public-Public Partnerships and Availability Payment Arrangements'***, was issued in March 2020. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

- **GASB Statement No. 96, "Subscription-Based Information Technology Arrangements"-** This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Future Adoption of Accounting Pronouncements (Continued)

- **GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84**, and a supersession of GASB Statement No. 32" - The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

The impact of the implementation of these statements on the **Department's** financial statements, if any, has not yet been determined.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the governmental and enterprise funds consist of demand deposits, interest bearing accounts, and bank investment contracts. The carrying amount of deposits of the **Department** at June 30, 2019 consists of the following:

	Carrying Amount			Depository Bank	Amount Uninsured and
	Unrestricted	Restricted	Total	Balance	Uncollateralized
Commercial bank	$111,554,011	$21,527,147	$133,081,158	$122,853,482	$ -
Governmental bank	80,207,680	15,851,185	96,058,865	96,058,865	96,058,865
Puerto Rico Treasury	58,005,479	-	58,005,479	55,094,213	-
US Treasury	-	687,202,157	687,202,157	687,202,157	-
Total	249,767,170	724,580,489	974,347,659	$961,208,717	$96,058,865
Less: Reserve for loss on deposits	(80,207,680)	(15,851,185)	(96,058,865)		
Total after reserve for loss on deposits	$169,559,490	$708,729,304	$878,288,794		

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial credit risk is the risk that in the event of bank failure, the **Department's** deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

All securities pledged as collateral are held by banks in the Commonwealth's name. There is no formal policy for custodial credit risk for cash accounts with commercial banks outside Puerto Rico.

The **Department's** bank balance in commercial banks was cover by federal depository insurance or by collateral held by Secretary of the PR Treasury in the **Department's** name. The amounts deposited in the GDB are uninsured and uncollateralized. Such deposits are exempt from the collateral requirement established by the Commonwealth, and thus, represent a custodial credit risk, because in the event of GDB's failure, the **Department** may not be able to recover these deposits. The deposits with the US Treasury from unemployment insurance taxes are uninsured and uncollateralized. The deposits with the US Treasury from unemployment insurance taxes in the UFT can only be invested in obligations of the US or obligations guaranteed by the US.

In addition, the **Department** has deposits that are held by the PR Treasury (as fiscal agent of the **Department**). These amounts are uncollateralized.

Reserve for Loss on Deposits with Governmental Bank (GDB) and Economic Development Bank (EDB)

The Commonwealth and the GDB face significant uncertainties, including liquidity risks, which is the risk of not having enough liquid financial resources to meet their obligations when they come due.

Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures. As a result of the reductions in liquidity experienced subsequent to June 30, 2015, GDB took a number of liquidities enhancing and conservation measures and explored the sale of assets and other alternatives to address its liquidity needs. Considering GDB's significant debt service obligations during fiscal years 2017 and 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in position to pay principal on its debt obligations due to May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described below. The GDB has continued to pay interest on its debt obligations.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

During August 2018, GDB announce the launch of the solicitation of votes to approve the GDB qualifying modification of its debts. Such solicitation includes the process of winding down its operations in an orderly fashion under Title VI of PROMESA. Therefore, Management believes that there is a substantial doubt that GBD will meet its obligations related with **Department** deposits.

As a result, a reserve for loss on deposits held with GDB was recorded in the Governmental and Enterprise Fund's basic financial statements for the year ended June 30, 2019 of approximately $80.2 and $15.9 million, respectively.

In addition, as of June 30, 2019, the **Department** held a certificate of deposit with the EDB in the total aggregate of amount of $511 thousand as of June 30, 2019. Management believes that EDB faces significant risk and uncertainties and it currently does not have enough liquid financial resources to meet obligations when they come due. As a result, full certificate balance held with EDB was fully reserved as of June 30, 2019.

NOTE 3 - RESTRICTED INVESTMENTS

As required by law, the principal purpose of the Disability and Drivers' Insurance funds is to cover payments for benefits claimed. To comply with the obligations of such enterprise funds, aside from the insurance premiums collections, an adequate investment of the required reserves is necessary to ensure the solvency of these enterprise funds. Accordingly, the results from the investments are a critical element to achieve the objectives and obligations imposed by law.

The **Department's** investment policies for such enterprise funds establish limitations and other guidelines on amounts to be invested in the investment categories and by issuer/counterparty and on exposure by country. Such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the investment committee and the Secretary of the **Department** will determine, from time to time, other transactions that such enterprise funds may enter into.

Inherent rate risk - In accordance with its investment policy, the Disability Insurance Fund manages its exposure to declines in fair values by establishing a long-term maturity of the investment portfolio of more than five years.

Credit risk - The **Department's** investment policy for the Disability Insurance Fund is to limit its investments pool rating of obligations and equities, not guaranteed by the US or its agencies, to not less than AAA by the Standard and Poor's (S&P) or AAA by the Moody's Investors Service (Moody's) and of corporate debt securities to the top three ratings by the S&P and Moody's.

Concentration of credit risk - The **Department's** investment policies for the Disability Insurance Fund does not allow for investment in debt securities in excess of 20% of the **Department's** enterprise funds fixed income investments and in small companies' equities in excess of 50% of the total equities investments.

NOTE 3 - RESTRICTED INVESTMENTS (CONTINUED)

Custodial credit risk - The risk that, in the event of the failure of the counterparty to the transaction, the **Department's** Disability Insurance Fund may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2019, securities investments were registered in the name of the Commonwealth and were held in the possession the Commonwealth's custodian bank.

Foreign currency risk - The **Department's** investment policy for the Disability Insurance Fund limits the investment in emerging countries to 50% of the total international equities.

All of the **Department's** investments of the Disability Insurance Fund in US Treasury securities and mortgage-backed *securities* guaranteed by Government National Mortgage Association (GNMA) carry the explicit guarantee of the US government and are presented as AAA to A- in the credit risk tables.

The fair value by investment type, credit quality ratings and maturity of the restricted investments reported by the business-type activities and the enterprise funds of the **Department** at June 30, 2019 consist of the following:

		Investment Rating			
	Fair Value	**AAA to A**	**BBB to B**	**Not Rated**	**No Risk**
Mortgage-backed securities	$4,445,720	$360,710	$ -	$721,126	$3,363,884
U.S. government and agency securities	4,580,456	374,833	-	520,005	3,685,618
U.S. equity securities	11,149,960	-	-	11,149,960	-
U.S. corporate debt securities	7,503,641	2,862,714	4,640,927	-	-
Other	366,500	157,718	208,782	-	-
Total	**$28,046,277**	**$3,755,975**	**$4,849,709**	**$12,391,091**	**$7,049,502**

		Maturity (in Years)			
	Fair Value	**No Stated Maturity**	**1 to 5 Years**	**6 to 10 Years**	**More Than 10 Years**
Mortgage-backed securities	$4,445,720	$ -	$106,914	$246,327	$4,092,479
U.S. government and agency securities	4,580,456	-	2,244,342	392,997	1,943,117
U.S. equity securities	11,149,960	11,149,960	-	-	-
U.S. corporate debt securities	7,503,641	-	2,414,988	3,797,300	1,291,353
Other	366,500	-	56,453	310,047	-
Total	**$28,046,277**	**$11,149,960**	**$4,822,697**	**$4,746,671**	**$7,326,949**

NOTE 3 - RESTRICTED INVESTMENTS (CONTINUED)

Fair Value of Investments - The **Department** measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs.

		Fair Value Measurement Using		
	June 30, 2019	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investment by fair value level				
Debts securities				
Asset Backed Securities	$4,445,720	$ -	$4,445,720	$ -
Corporate Debt Securities	7,870,141	-	7,870,141	-
Government Debt Securities	3,769,624	-	3,769,624	-
State and Local Government Debt Securities	374,833	-	374,833	-
Structured Debt	435,999	-	435,999	-
Total debt securities	16,896,317	-	16,896,317	-
Equity Securities				
Others - Equity Funds	11,149,960	-	11,149,960	-
Total Equity Securities	11,149,960	-	11,149,960	-
Total investment by fair value level	**$28,046,277**	$ -	**$28,046,277**	$ -

The **Department's** carry all their investments at net fair value. The investment managers generally use the market approach to value its investment securities, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities. As show in the table above, all the **Department's** debt and equity securities were classified in Level 2 of the fair value hierarchy. They are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities' relationship to benchmark quoted prices.

NOTE 4 - RECEIVABLES

Receivables in the **Department's** governmental funds include intergovernmental receivables from the federal government of $8.5 million. At June 30, 2019, amounts due from the US Department of Labor (USDOL) and US Department of Education (USDE) $4.4 and $4.1 million, respectively.

Insurance tax premiums are levied each quarter to employers registered under the State Unemployment Insurance, the Temporary Non-occupational Disability Insurance and the Driver's Social Security Insurance Programs.

Federal contributions are received to reimburse the benefits paid mainly for extended unemployment benefits granted under the Emergency Unemployment Compensation and the Additional Unemployment Compensation programs and to unemployed ex-military and civilian ex-federal employees, whose unemployment is caused by a presidential declared disaster under the Disaster Relief Act, and adversely affected work under the Trade Act.

NOTE 5 - PAYABLES

Payables in the governmental funds include approximately $33.5 million of trade accounts due to suppliers for purchase of merchandise received and services rendered at June 30, 2019. Also, excess of checks drawn over the PR Treasury cash balance amounted to approximately $256 million, are reported within accounts payable and accrued liabilities of the governmental activities and the governmental funds.

Payables in the business-type activities include approximately $1.3 million of trade accounts due to suppliers for purchase of merchandise and services rendered and $92.2 thousands of accrued Christmas bonus at June 30, 2019.

Benefits payable in the enterprise fund include approximately $37.3 million of unemployment, disability and drivers' insurance benefits claims.

NOTE 6 - INTER-FUND AND INTRA-ENTITY TRANSACTIONS

Inter-fund receivables and payables at June 30, 2019 consist of:

Receivable by Fund	Payable by Fund	Amount
Drivers' Insurance	Other Governmental Funds	$6,827,029
Work Opportunity Incentive	Unemployment Insurance	1,575,971
Federal Funds	Unemployment Insurance	104,975
Vocational Rehabilitation Administration Funds	Vocational Rehabilitation Administration - Business-Type Fund	204,126
Total		$8,712,101

NOTE 6 - INTER-FUND AND INTRA-ENTITY TRANSACTIONS (CONTINUED)

Transfers from (to) other funds for the year ended June 30, 2019 are as follows:

Transferee Fund	Transferor Fund	Purpose	Amount
Unemployment Insurance	Work Opportunity Incentive	Cash for work incentives and administrative expenses payments	$41,589,047
Unemployment Insurance	Other Governmental Funds	Cash for administrative expenses payments	3,065,406
Work Opportunity Incentive	Drivers' Insurance	Loan repayment	1,224,503
Other Governmental Funds	Drivers' Insurance	Loan repayment	1,635,169
Federal Funds	Other Governmental Funds	Indirect costs allocation	2,137,946
Total			$49,652,071

The principal purpose of the inter-fund transfers was the unemployment insurance fund's distribution of surplus cash belonging to the Work Opportunity Incentive Fund and the General Fund for the payment of work incentives and administrative expenses amounting to $41.6 million as required by law.

Inter-fund receivables and payables represent pending settlements of the aforementioned transfers or transactions from current and prior years.

Due to/from other governmental entities by the **Department** at June 30, 2019, in the amount of $4.2 million, consist mainly of work incentive programs and retirement cost pending for payment.

NOTE 7 - RESTRICTED ASSETS

Restricted assets included in the **Department's** basic financial statements as of June 30, 2019 consist of restricted cash, receivables, notes receivables, and investments held for unemployment and disability insurance benefits payments in the business-type activities amounting to approximately $784 million.

Liabilities payable from restricted assets of the **Department** included in the basic financial statements as of June 30, 2019 mainly consist of unemployment and disability insurance benefits payable in the business-type activities amounting to approximately $61 million.

Restricted net position of the **Department** included in the basic financial statements as of June 30, 2019 consists of net position for payment of unemployment and disability insurance benefits amounting to approximately $722.8 million.

NOTE 8 - CAPITAL ASSETS

Capital assets activity of the **Department** for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Additions Total	Retirements Total	Ending Balance Total
Governmental Activities:				
Capital Assets, being depreciated:				
Buildings	$ 7,535,000	$ -	$ -	$ 7,535,000
Furniture and equipment	17,426,047	-	-	17,426,047
Vehicles	139,905	135,392	-	275,297
Total capital assets, being depreciated	25,100,952	135,392	-	25,236,344
Less accumulated depreciation for:				
Buildings	1,820,960	251,167	-	2,072,127
Furniture and equipment	16,504,152	144,255	-	16,648,407
Vehicles	139,905	11,282	-	151,187
Total accumulated depreciation	18,465,017	406,704	-	18,871,721
Governmental activities capital assets, net	**$ 6,635,935**	**$ (271,312)**	**$ -**	**$ 6,364,623**

	Beginning Balance	Additions Total	Retirements Total	Ending Balance Total
Business-type Activities:				
Capital Assets, being depreciated:				
Buildings	$ 450,153	$ -	$ -	$ 450,153
Furniture and equipment	340,903	-	-	340,903
Computer, Equipment and Software	108,318	-	-	108,318
Vehicles	213,224	-	-	213,224
Total capital assets, being depreciated	1,112,598	-	-	1,112,598
Less accumulated depreciation for:				
Buildings	400,243	43,280	-	443,523
Furniture and equipment	330,645	4,369	-	335,014
Computer, Equipment and Software	108,318	-	-	108,318
Vehicles	213,224	-	-	213,224
Total accumulated depreciation	1,052,430	47,649	-	1,100,079
Business-type activities capital assets, net	**$ 60,168**	**$ (47,649)**	**$ -**	**$ 12,519**

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charge to the functions/programs of the **Department** for the year ended June 30, 2019 as follows:

Governmental activities:	
General and administrative	$ 9,629
Employment regulations	20,499
Employment services	5,199
Unemployment services	18,895
Work incentive	251,168
Occupational safety and health	3,377
General and Administrative VRA	97,937
Total depreciation expense -governmental activities	$ 406,704

Also, depreciation expense amounting to $47,649 was charged to Business-type Activities.

The **Department** follows the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* - an amendment of GASB Statement No. 34. This statement establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The **Department** did not recognize any impairment loss during the fiscal year ended June 30, 2019.

As discussed in **Note 1** to the financial statements, on November 14, 2011, the Reorganization Plan Number 9 merged and transferred all the operations, personnel, assets, functions, and powers of the FEWTA to the **Department.** Part of the assets transferred consisted of eighteen (18) buildings acquired by FEWTA either by virtue of law or donation. As of the date of the financial statements, fourteen (14) of the properties were appraised and the fair value was recognized in the financial statements of the **Department**. The remaining four (4) buildings have not been appraised, and, therefore, a fair value could not be determined and could not be recorded in the financial statements of the **Department** as of the end of the fiscal year.

NOTE 9 - UNEARNED REVENUES

Total unearned revenues as of June 30, 2019 amounted to $23,594,695, and are presented in the following business-type funds as follows:

Business-type activities:	
Unemployment Insurance	$22,014,378
Disability Insurance	1,563,357
Drivers Insurance	16,960
Total Unearned Revenues	$23,594,695

NOTE 10 - LONG-TERM LIABILITIES

Long-term liabilities activity of the **Department** for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balance	Increase (Decreases)	Ending Balance	Due within one year	Long-term portion
Governmental activities:					
Compensated absences	$7,282,974	$89,796	$7,372,770	$4,296,020	$3,076,750
Christmas bonus	714,200	(40,686)	673,514	673,514	-
Early Retirement Program	3,230,292	2,811,308	6,041,600	1,300,826	4,740,773
Total governmental activities	11,227,466	2,860,418	14,087,884	6,270,360	7,817,524
Business-type Activities:					
Compensated absences	633,225	(46,870)	586,355	246,037	340,318
Total	**$11,860,691**	**$2,813,548**	**$14,674,239**	**$6,516,397**	**$8,157,842**

Compensated Absences

Long-term debt includes approximately $3.4 million of accrued vacation at June 30, 2019. As noted above, the total liability of compensated absences recorded as governmental and business-type activities amounted to approximately $3.1 million and $340 thousand, respectively.

Christmas Bonus

Long-term debt includes approximately $673.5 thousand of accrued Christmas bonus at June 30, 2019 recorded as governmental activities. The accrued Christmas bonus for business-type activities amounted to approximately $92.2 thousand, which was recorded as part of accounts payable and accrued expenses in the enterprise funds' financial statements.

NOTE 11 - PENSION PLAN BENEFITS

General Information About the Pension Plan

The **Department** is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular fulltime public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990.

NOTE 11 - PENSION PLAN BENEFITS (Continued)

General Information about the Pension Plan (Continued)

- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999

- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employer defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000, there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account. Effective on July 1, 2013, Act No. 3 of 2013 ("Act 3") amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include: (1) retirement benefits accrued and savings account balances under the provisions of Act 447,Act 1 and System 2000 as of June 30, 2013; (2) contributions made by all members of ERS after June 30, 2013; and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS. The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a "covered instrumentality" pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth's fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS's severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the "District Court").

Creation and transition to a new defined contribution plan - PayGo Pension Reform

Effective July 1, 2017, a new "pay as you go" (PayGo) mechanism for the Commonwealth Retirement Systems was implemented by the Treasury Department. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws, and the AUC were all eliminated. ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation and municipality, including the **Department**.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, that will be managed by a private entity.

NOTE 11 - PENSION PLAN BENEFITS (Continued)

Creation and transition to a new defined contribution plan - PayGo Pension Reform (Continued)

Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system. Approximately $2 billion was allocated for these purposes in the budget for fiscal year 2018.

As we mentioned, Act No. 106 also created a Defined Contributions Plan, similar to a 401(k) plan, which mandates the contributions of 8.5% of gross salary to all participants. Members may voluntarily make additional contributions to their defined contribution individual account. During fiscal year ended June 30, 2019, employees' contributions amounted to $3.0 million. Therefore Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Act No. 106, among other things, also amended Act No. 12 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was substituted with a new retirement board (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems. Also, Act No. 106 ordered a suspension of ERS's loan programs and ordered a merger of the administrative structures of the Commonwealth Retirement Systems. At the Retirement Board's discretion, the administration of ERS benefits may be externalized. The employees of ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act 8 of February 8, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions; and other required disclosures under GASB Statement No. 73

As discussed above, pursuant to Act No. 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. 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. Instead, since that date, 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 No. 68*. However, the ERS have not provided the **Department** with the audited actuarial and financial information necessary to comply with the requirements of GASB Statement No. 73 as of June 30, 2018. As a result, amounts that shall be reported as deferred outflows \inflows of resources related to pensions and pension liability in the government-wide financial statements had not been accounted for by the **Department.** In addition, applicable disclosures and required supplementary information under the provisions of GASB Statement No. 73 have been omitted.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **Department** 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 Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

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 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 Commonwealth 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 Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The **Department'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 Commonwealth 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

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the **Department** with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (**Department'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, 2019. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

NOTE 13 - VOLUNTARY TERMINATION BENEFITS PROGRAM

On July 2, 2010, the Commonwealth 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 services in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the Administration will make the 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.

The Economic incentives are available to eligible employees who have less than 15 years of credit services 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 management of the Administration.

On December 8, 2015, the Commonwealth enacted Act No. 211, establishing a voluntary program that provides benefits for pre-retirements to eligible employees, as defined by the Act. Such program applies to eligible employees of agencies and component units whose budgets are funded in whole or in part by the Commonwealth's General Fund, municipalities, component units that operate with their own resources (except those that have their own retirement system), Judiciary Branch, except judges, and the Commonwealth Employees Association. Act No. 211, among other provisions, established that pre-retirement benefits (pre-retirement program) will be provided to eligible employees who started contributing to the System before April 1, 1990 with at least 20 years of service and will consist of biweekly benefits of 60% of the of each employee's salary as of December 31, 2015. Pursuant to the Act, the employers will continue making the applicable employee and employer contributions to the Retirement System and the employer contributions to the Federal Social Security and Medicare based on such average salary as of December 31, 2015.

Individual contributions to the Federal Social Security and Medicare will be deducted from the biweekly benefits to be paid to the participant. These payments will be made until the employee reaches the age of 61 years. Other benefits would include the payment of the participant's healthcare plan during the first two years of the program.

Once the participant reaches age of 61 years, the participant is eligible to receive payments from the System and is entitled to a guaranteed minimum pension of 50% of their average salary (except police officers, which would be paid 60%) which related cost will be paid by the employer.

NOTE 14 - COMMITMENTS

The **Department** has several non-cancelable operating leases, including those with the Public Buildings Authority of the Commonwealth of Puerto Rico (PBA), primarily for regional **Department's** facilities that expire over minimum terms of five years, and can be renewed for additional terms, as provided in each contract. Annual rental payments to the PBA are determined based on the debt service requirements of the related debt to be paid with the rental proceeds, plus the facilities operating costs allocation. For the year ended June 30, 2019, rent expenditures of the **Department** amounted to approximately $7.3 million under such operating leases.

The future minimum lease payments for these leases are as follows:

Year ending June 30,	Amount
2020	$ 3,522,651
2021	2,260,851
2022	949,226
2023	480,095
2024	480,095
Thereafter	7,470,636
Total	$15,163,554

NOTE 15 - CONTINGENCIES

Litigations

The **Department** is a defendant or co-defendant in various pending litigations. The **Department's** management, after consultation with in-house legal counsel, has determined that the probable outcome of these cases will not have a material impact on the accompanying basic financial statements. The Commonwealth of Puerto Rico Act 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth, present and former employees, directors, mayors, and others may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claim to the defendants will be paid by the General Fund of the Commonwealth. However, the Secretary of the PR Treasury has the discretion of requesting reimbursement of the funds expended for these purposes from public corporations, governmental institutions, and municipalities.

Federal Awards

The **Department** participates in federal programs received from the USDOL, USDE and USEEOC to promote the working-class-welfare and finance the administration costs of its various federal programs. Expenditures financed by federal grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements.

NOTE 15 - CONTINGENCIES (Continued)

Federal Awards (Continued)

If expenditures are disallowed due to noncompliance with grant program requirements, the **Department** may be required to reimburse the grantor agency. Accordingly, the Department's compliance with applicable grant requirements will be established at a future date. Nevertheless, the **Department's** management is of the opinion that the amount of expenditures, which may be disallowed by the granting agencies from such audits, will be immaterial to the **Department's** basic financial statements.

NOTE 16 – HURRICANES IRMA (4336) AND MARIA (DR-4339)

Insurance Claims Related to the Impact of Hurricane Irma and Maria

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, bringing sustained winds of 155 miles per hour and significant rainfall over a 30-hour period. As we mentioned, the hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane Maria, Hurricane Irma-one of the strongest hurricanes ever recorded in the Atlantic-passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

The hurricanes severely damaged or destroyed facilities owned by the **Department**. The **Department** had commercial insurance policies in effect at the time of the hurricane. The policies are subject to various terms and conditions on insurance coverage. As of June 30, 2019, and through the date of the insurance of these financial statements, the Department was in the claim process amounting to approximately to $11.7 million.

Disaster unemployment Assistance Program (DUA)

Jurisdictional Responsibilities - The President, by Executive Order No. 12673 of March 23, 1989 (54 FR 12571), delegated the responsibility for administering the Stafford Act to the Federal Emergency Management Agency (FEMA). FEMA has delegated to the Secretary of Labor the responsibility of administering those provisions of the Stafford Act which pertain to the Disaster Unemployment Assistance Program (DUA) and payment of DUA benefit assistance. FEMA furnishes funds to the Secretary of Labor, or to his/her designee, who makes funds available to States, that enter into an Agreement with the Secretary of Labor, for States DUA administrative costs and the payment of DUA to eligible individuals. (Only in special circumstances is the establishment of Disaster Recovery Centers (DRCs) required by FEMA; therefore, funds for administrative costs to staff DRCs are not authorized unless special circumstances exist.)

NOTE 16 - HURRICANES IRMA (DR 4336) AND MARIA (DR-4339)

Presidential Declaration of a Major Disaster and Notification - The President of the United States is authorized to provide benefit assistance to individuals unemployed as a result of a major disaster. The President declares that a major disaster exists at the request of the Governor of the affected State and authorizes: 1) the type(s) of Federal assistance to be made available, and 2) the geographic areas that have been adversely affected by the disaster. The Presidential declaration may authorize Individual Assistance (IA), which includes the provisions for DUA, to families and individuals. When the President declares that a major disaster exists in a State, the Governor of such State is notified by written communication.

Disaster Assistance Period

a. **Uniform Disaster Assistance Period -** A uniform disaster assistance period will begin with the first week following the date the major disaster began and will end with the last week that begins (week as defined in the State law) prior to 26 weeks after the date the major disaster was declared. DUA will not be paid for any period of unemployment that occurs prior to the disaster date nor for a week of unemployment which begins after the last date of the disaster assistance period. Two clarifications are necessary under this section: (1) A week in the definition of Disaster Assistance Period is a "week" under the applicable State law; and (2) There is no statutory limitation on the number of weeks in a Disaster Assistance Period. A Disaster Assistance Period, during which DUA may be payable to an individual may exceed 26 weeks, which is different than under most State unemployment compensation program. This is possible when the disaster declaration is delayed for whatever reason.

b. **Subsequent Disaster Assistance Period -** Each declared disaster creates a specific disaster assistance period. The designation of a subsequent disaster assistance period applies when there is an existing disaster assistance period in a State and second disaster is declared that affects an individual who had returned to work and again becomes unemployed as a result of the subsequent declared disaster. In such instances, DUA is not payable to the individual based on the initial disaster. Applications resulting from the subsequent disaster must be determined under the requirements for the subsequent disaster.

General DUA Eligibility Requirements - DUA payments are designed to provide assistance to the individual who is unemployed as a result of a declared disaster and is not eligible for unemployment compensation but meets the DUA qualifying requirements. DUA is not payable as a supplement to unemployment compensation for the same week of unemployment, nor is it payable for any unemployment compensation waiting period required under State UC law. Like the unemployment compensation program, the DUA program is designed to provide temporary partial income replacement so that the individual unemployed as a result of a declared disaster can provide for the necessities of living. DUA is not designed to provide 100 percent income replacement or to ameliorate business losses to self-employed individuals who suffer such losses due to a disaster.

NOTE 16 - HURRICANES IRMA (DR 4336) AND MARIA (DR-4339) (CONTINUED)

Disaster unemployment Assistance Program (DUA) (Continued)

To qualify for DUA, individuals must be unemployed or partially unemployed at their on-going employment or self-employment as a direct result of the major disaster or must be prevented from commencing employment or self-employment. This includes individuals who reside in the major disaster area but are unable to reach their place of employment, but who are unable to do so as a direct result of the major disaster.

When a major disaster occurs that directly prevents an individual from performing services, i.e., meeting one or more for the causes of unemployment set out in 20 CFR 625.5, the individual should not be denied eligibility simply because he/she actually worked outside the major disaster are or was to commence work outside the disaster area.

During fiscal year ended June 30, 2018, the **Department** was awarded with DUA funds amounting to $14,349,978, from which $1,473,955 are related to hurricane Irma and $12,876,023 are related to Hurricane María, with additional funding during fiscal year ended June 30, 2019 of $151,515 and $2,893,800, respectively.

NOTE 17 - GOING CONCERN CONSIDERATION

As a part of its formal activities, and as disclosed in **Notes 1** and **2**, the **Department** is financially dependent of Commonwealth appropriations. As of June 30, 2019, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having enough liquid financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth has provided to the **Department** may be affected in the near future. The **Department** has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its basic financial statements and operations and has concluded that, as of June 30, 2019, the Department will continue to operate as a going concern for a period not less than twelve months after such date.

NOTE 18 – SUBSEQUENT EVENTS

The **Department** has evaluated events and transactions for potential recognition or disclosures through June 30, 2021, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except for those describe in the following paragraphs.

NOTE 18 – SUBSEQUENT EVENTS (CONTINUED)

Worldwide pandemic of Coronavirus (COVID-19)

This event that has impact the Department of Labor and Human Resources is the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, in this case, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. While the disruption is expected to be temporary, there is a considerable uncertainty around the duration of the closings. Due to this, the DLHR expects that this matter should have an impact in its oncoming operating results, cause by a reduction in the operating grants an contributions revenues included business type operations.

On March 18, 2020 was signed into law the Families First Coronavirus Response Act (FFCRA), which provided additional flexibility for state unemployment insurance agencies and additional administrative funding to respond to the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27. It expanded states' ability to provide unemployment insurance for many workers impacted by the COVID-19 pandemic, including for workers who are not ordinarily eligible for unemployment benefits. The CARES Act also gives states the option of extending unemployment compensation to independent contractors and other workers who are ordinarily ineligible for unemployment benefits. Pandemic Unemployment Assistance (PUA) has been extended. New claims can be filed until March 13, 2021 and claimants with benefit weeks remaining after March 13, 2021 will receive PUA payments through the benefit week ending April 10, 2021.

In general, PUA provides up to 50 weeks of unemployment benefits to individuals not eligible for regular unemployment compensation or extended benefits, including those who have exhausted all rights to such benefits. Individuals covered under PUA include the self-employed (e.g. independent contractors, gig economy workers, and workers for certain religious entities individuals lacking sufficient work history, and those who otherwise do not qualify for regular unemployment compensation or extended benefits. During fiscal year ended June 30, 2020 the **Department** was awarded with PUA funds amounting to $6.7 billion.

Compensated absences

On December 16, 2019, the Government enacted Act No.1 76 to amend Act 8 of 017. Accordingly, annual vacation days were increased to 30 days, which may be accumulated up to sixty (60) days .

Also, the employees hire before the effectiveness of this Act, will be granted annually with eighteen (18) days for sick leave. In addition, the employees hire after the effectiveness of this Act, will be granted annually with twelve (12) days for sick leave.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
As of and for the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Amount in Budgetary Basis	Variance
Revenues:				
Legislative appropriations	$ 8,454,000	$ 7,036,000	$ 7,036,000	$ -
Total revenues	8,454,000	7,036,000	7,036,000	-
Expenditures:				
General and administrative	8,454,000	7,036,000	7,035,930	70
Total expenditures	8,454,000	7,036,000	70	70
Excess Revenues Over Expenditures	**$ -**	**$ -**	**$ 70**	**$ 70**

The accompanying notes to this budgetary comparison schedule are an integral part of this Schedule.

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The **Department's** annual budget is prepared on the budgetary basis of accounting, which is not in accordance with US GAAP, and represents fund, function and **Department** appropriations submitted by the Secretary of Labor to the Puerto Rico Office of Management and Budget (PROMB). Such budget is incorporated by the PROMB into the Commonwealth consolidated annual budget document, which is submitted by the Governor to the Legislature, and then approved by the Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Legislature. Transfers of certain appropriations within the budget require the approval of the PROMB and after approval accounted for by the PR Department of Treasury. Formal budget integration is employed as a management control device during the fiscal year for the general fund. As stated in the Constitution of the Commonwealth, the budgeted expenditures should be balanced with estimated revenues. The **Department** prepares its annual budget including the operations of the general fund. The annual appropriated budget for the fiscal year ended June 30, 2019 was $21.2 million.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The Commonwealth of Puerto Rico Accounting Act establishes that unreserved and unexpended funds at the end of the fiscal year from the **Department** should be reverted to the Secretary of the PR Treasury pursuant to Act 230.

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NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget GAAP/Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with US GAAP, a reconciliation of differences in the excess revenues over expenditures for the fiscal year ended June 30, 2019 is presented below:

Excess of Revenues Over Charges to Appropriations from the Budgetary Comparison Schedule - General Fund	$ 70
Timing Differences:	
Current Year Expenditures Recorded Against Prior Year Encumbrances	337,384
Current Year Encumbrances Not Recorded As Expenditures Under The Modified	2,881
Excess of Revenues Over Expenditures in the Statement of Revenues, Expenses and Changes in Fund Balances – Governmental Funds	$ 340,335

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	From Pass-Through Awards	From Direct Awards	Total Federal Expenditures
<u>US Department of Agriculture</u>						
Passed-through PR Department of Education						
National School of Lunch Program	10.555	018	-	$ 47,964	$ -	$ 47,964
<u>US Department of Housing and Urban Development</u>						
Passed through- PR Department of Housing and Urban Development						
Public and Indian Housing	14.850	14.U01	-	19,794	-	19,794
<u>US Department of Labor</u>						
Direct Programs:						
Labor Force Statistics	17.002	N/AV	-	-	549,821	549,821
Compensation and Working Conditions	17.005		-	-	61,977	61,977
Unemployment Insurance	17.225		-	-	83,738,513	83,738,513
Senior Community Service Employment Program	17.235		-	-	1,006,786	1,006,786
Work Opportunity Tax Credit Program (WOTC)	17.271		-	-	63,992	63,992
Temporary Labor Certification for Foreign Workers	17.273		-	-	19,410	19,410
Occupational Safety and Health State Program	17.503		-	-	2,499,119	2,499,119
Consultation Agreements	17.504		-	-	553,361	553,361
Sub-Total Direct Programs			-	-	88,492,979	88,492,979
Employment Services Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207		-	-	4,493,045	4,493,045
Disabled Veterans' Outreach Program (DVOP)	17.801		-	-	319,070	319,070
Total Employment Services Cluster			-	-	4,812,115	4,812,115
Subtotal US Department of Labor			-	-	93,305,094	93,305,094

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
As of and for the Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through To Subrecipients	From Pass-Through Awards	From Direct Awards	Total Federal Expenditures
US Department of Homeland Security						
Passed through- US Department of Labor						
Disaster Unemployment Assistance	97.034	N/AV	-	4,506,609	-	4,506,609
Passed-through PR Office of Management and Budget						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/AV	-	65,905	-	65,905
Subtotal US Department of Homeland Security			-	4,572,514	-	4,572,514
Total Expenditures of Federal Awards			$ -	$4,640,272	$93,305,094	$97,945,366

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this Schedule.

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grants activities of the **Department** and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The Schedule excludes the other agency, which is an organizational component of the **Department**, known as the Vocational Rehabilitation Administration, presented as governmental funds of the **Department.** The information in the Schedule is presented in accordance with the requirements of Uniform Guidance 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

State or local governments redistributions of federal awards to the **Department** known as "pass-through awards", should be treated by the **Department** as though they were received directly from the federal government. The Uniform Guidance 2 CFR Part 200 requires the Schedule to include the name of the pass-through entity and the identifying number assigned to the pass-through entity for the federal awards received. The **Department** did not pass through to subrecipients any portion of its awards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A summary of the significant accounting policies used by the **Department** in the preparation of the Schedule follows:

a) The accompanying Schedule of Expenditures of Federal Awards is prepared from the **Department's** accounting records and is not intended to present the financial position or results of operations.

b) The financial transactions are recorded by the **Department** in accordance with the terms and conditions of the grant, which may not be consistent with generally accepted accounting principles in the United States of America.

c) Expenditures are recognized in the accounting period in which the liability is incurred, is measurable or when actually paid whichever occurs first.

NOTE 3 - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) numbers included in this Schedule are determined based on the program's name and the contract award year in the CFDA US Office of Management and Budget. The CFDA number is a program identification number, whose first two digits identify the federal agency or department that administers the program.

A cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs, because they are closely related programs that share common requirements.

NOTE 3 - FEDERAL CFDA NUMBER (Continued)

The Schedule of Expenditures of Federal Awards includes the following clusters:

Cluster	Federal Program	Federal CFDA Number
Employment Service	Employment Service/Wagner-Peyser Funded Activities	17.207
	Disable Veterans' Outreach program (DVOP)	17.801

NOTE 4 - MAJOR FEDERAL PROGRAMS

Major programs are identified in the Summary of Auditors' Results Section of the Schedule of Findings and Questioned Costs.

NOTE 5 - UNEMPLOYMENT INSURANCE

In accordance with the Department of Labor, Office of Inspector General instructions, the **Department** recorded State Regular Unemployment Compensation (UC) benefits under CFDA No. 17.225, on the accompanying Schedule of Expenditures of Federal Awards. The individual State and Federal portions are as follows:

State Regular UC benefits	$64,207,567
Federal UC benefits	1,235,316
Federal UC administrative costs	18,295,630
Total Benefits	**$83,738,513**

NOTE 6 - INDIRECT COST RATE

The **Department** has not elected to use the 10% de minims indirect cost rate allowed under the §200.414 Indirect (F&A) costs of the Uniform Guidance.

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NOTE 7 - RECONCILIATION TO THE FUND FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the **Department's** Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds and the Statement of Revenues, Expenses and Changes in Net Position-Enterprise Funds. A reconciliation of the total expenditures from the accompanying Schedule to the Fund Financial Statements is as follows:

Expenditures reported in the Statement of Revenues, Expenditures, and changes in Fund Balance (Deficit) - Governmental Funds	$137,843,440
Expenses reported in the Statement of Revenues, Expenditures and Changes in Net Position - Enterprise Funds	75,952,392
Total	213,795,832
Less Expenses reported in:	
General Fund	(6,695,665)
Work Opportunity Incentive Fund	(17,277,158)
Vocational Rehabilitation Administration	(62,023,689)
Indirect Costs Allocation	(19,675,936)
Disability Insurance	(7,156,616)
Drivers' Insurance	(3,021,402)
	(115,850,466)
Amount reported in the Schedule of Expenditures of Federal Awards	**$ 97,945,366**

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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 Honorable Secretary and Management
of the Commonwealth 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 **Department of Labor and Human Resources (the Department)** as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **Department's** financial statements, and have issued our modified report thereon dated June 30, 2021. In our report on the **Department's** financial statements our opinions for the Enterprise Funds and Business-Type Activities were qualified, because of inadequacies in the **Department's** accounting records and reconciliation procedures for recording financial transactions of cash. Also, in our report on the **Department's** financial statements our opinions for the Governmental Activities and Governmental Funds were qualified, because of inadequacies in the **Department's** accounting records and reconciliation procedures for recording financial transactions in the cash and accounts payable areas, and that management has not recorded certain general capital assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. In addition, the **Department** has not implemented the provisions and requirements of GASB No. 73 *"Accounting and Financial Reporting for Pensions That Are Not Within The Scope of GASB Statement No. 68"* and GASB No. 75 *"Accounting and Financial Reporting for Postretirement Benefits other than Pensions"*

In addition, our report on the **Department** basic financial statements included an emphasis of matter paragraph indicating that the **Department** has evaluated the uncertainty about the ability of the Commonwealth of Puerto Rico to continue as a going concern based on effects of the budgetary constraints and liquidity risk being faced by the Commonwealth of Puerto Rico.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Department's** internal control over financial reporting (internal control) to determine the 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 **Department's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Department's** internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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)

Internal Control over Financial Reporting (Continued)

However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items **2019-001, 2019-002, 2019-005** and **2019-006** to be *material weaknesses*. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items **2019-003** and **2019-004** to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Department'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 determination of the financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as items **2019-001, 2019-002, 2019-003, 2019-004, 2019-005 and 2019-006**.

Department's Response to Findings

The **Department's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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)

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.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 30, 2021

Stamp No. 2783523 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

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

To the Honorable Secretary and Management
of the Commonwealth of Puerto Rico
Department of Labor and Human Resources
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **Department of Labor and Human Resources (the Department)'s** compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have direct and material effect on each of the **Department's** major federal programs for the year ended June 30, 2019. The **Department's** major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

The **Department's** basic financial statements include the operations of the Vocational Rehabilitation Administration, which is an organizational component of the **Department**, and expended $48,764,477 in federal awards, which are not included in the **Department's** Schedule of Expenditures of Federal Awards for the year ended June 30, 2019. Our audit, described below, did not include the expenditures of federal awards of the Vocational Rehabilitation Administration. We were engaged to audit the operations of the Vocational Rehabilitation Administration for the year ended June 30, 2019 and have issued our report dated February 24, 2020 in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the **Department's** major federal programs based on our audit of the types of compliance requirements referred to above. 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 Principle, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Department's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Department's** compliance.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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

Opinion on Each Major Federal Programs

In our opinion, the **Department** 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 other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2019-007** through **2019-011**. Our opinion on each major federal program is not modified with respect to these matters.

The **Department's** response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the **Department** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Department's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Department's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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)

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2019-007, 2019-009** and **2019-010** to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items **2019-008** and **2019-011** to be significant deficiencies.

The **Department's** response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
June 30, 2021

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was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Opinion Unit	**Type of Opinion**
Governmental Activities	Qualified
Business-type Activities	Qualified
General Fund	Qualified
Work Opportunity Incentive Fund	Qualified
Vocational Rehabilitation Administration Fund	Qualified GWFS Unmodified FFS
Unemployment Insurance Fund	Unmodified
Disability Insurance Fund	Qualified
Drivers' Insurance Fund	Qualified
Aggregate Remaining Fund Information	Qualified
Agency Fund	Unmodified

Internal control over financial reporting:		
Material weakness (es) identified?	☒Yes	☐No
Significant deficiency (ies)?	☒Yes	☐None Reported
Noncompliance material to financial statements noted?	☒Yes	☐No

Federal awards

Internal Control over major programs:		
Material weakness (es) identified?	☒Yes	☐No
Significant deficiency (ies)?	☒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) of the Uniform Guidance?	☒Yes	☐No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
17.225	Unemployment Insurance
97.034	Disaster Unemployment Assistance
	Employment Service Cluster:
17.207	Employment Service, Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program (DVOP)

Dollar threshold used to distinguish between Type A and Type B programs	**$3,000,000**	
Auditee qualified as low-risk auditee?	☐Yes	☒No

Section II - Financial Statements Findings

Finding No. 2019-001

Requirement: Accounting System

Type of Finding: Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding 2018-001

Statement of Condition

During the audit of the **Department's** basic financial statements for the fiscal year ended June 30, 2019, we noted the following deficiencies in the accounting system:

1. The accounting records are primarily designed for the recording of revenues, expenditures, and other limited transactions on a cash basis and not to provide the necessary information needed for the preparation of financial statements in accordance with generally accepted accounting principles. The conversion of the financial information of the accounting system obtained from a modified accrual to a full accrual basis requires a significant effort by the **Department** and the recording of several adjusting entries in order to account for unrecorded transactions such as the accrual of receivables, accounts payable, unearned revenue, benefits payable, compensated absences, capital assets transactions, or to correct transactions accounted for in the incorrect accounting period.

2. As established in the Reorganization Plan Number 4 of December 9, 2011, the operations, employees, assets and functions of the Future Entrepreneurs and Worker's Training Administration were transferred to the **Department** effective January 8, 2012. During 2013 the beginning balances and the transactions related to the operations of FEWTA were recorded in the **Department's** accounting records, but the balances related with certain capital assets could not be estimated in order to be recorded. These capital assets were excluded from the 2019 financial statements.

3. No adequate and timely recording procedures are performed in the general ledger accounts.

4. Interfunds transactions are not properly recorded and reconciled in the accounting records during the year. They required material adjustments at year-end.

5. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-001 (Continued)

6. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts payable and federal appropriations area.

7. During our cut-off substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period.

8. The **Department** does not have an accounting manual to be followed on significant areas such as collections, disbursements, accounts receivable, accounts payable, capital assets, purchases, and monthly and annual closings of books.

   Please refer to findings 2019-002, 2019-003, 2019-004 and 2019-005, for deficiencies in cash, accounts receivable, capital assets and accounts payable, respectively.

Criteria

20 CFR 200.510 requires auditees to prepare financial statements that reflect its financial position, results of operations and changes in net assets for the fiscal year audited. Also, the accounting system established should be designed to reflect or provide complete and clear information related to the agency's financial results of operations. It should also provide accurate reports that act as a basis for the preparation and support of the budget needs and for the control and proper monitoring of the budget.

29 CFR, Part 97, Subpart C, Section 97.20 "Standards for financial management systems", establishes the following: (a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes; (b) The financial management systems of other grantees and sub-grantees must meet the following standards: (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant; (2) Accounting records. Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income; (3) Internal control.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-001 (Continued)

Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes; (4) *Budget control*. Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or sub-grant agreement. If unit cost data is required, estimates based on available documentation will be accepted whenever possible; (5) *Allowable cost*. Applicable 0MB cost principles, agency program regulations, and the terms of grant and sub-grant agreements will be followed in determining the reasonableness, allowability, and allocability of costs; (6) *Source documentation*. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc. (c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre-award review or at any time subsequent to the award.

Act Number 230 of July 23, 1974, *Puerto Rico Government Accounting Law,* as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.

Cause of Condition

Lack of adequate accounting procedures for reconciliation and analysis of the financial transactions recorded during the year, lack of supervision of the **Department** of Finance personnel, lack of GAAP governmental accounting knowledge of the personnel in charge of the **Department's** accounting and lack of proper training to them.

Effect of Condition

Not preparing and submitting monthly reconciled financial statements to management does not allow management performing the following procedures:

1. Detection of any irregularities or instances of fraud on a timely basis,

2. Preparation of timely comparison between actual expenditures and budget,

3. Discussion of reports with the corresponding personnel and explanations of significant variations from budget,

4. Preparation of reports related to state and federal funding may be misleading for internal management decision making and for the reliability of external financial reporting, and

Section II - Financial Statements Findings (Continued)

Finding No. 2019-001 (Continued)

5. Compliance with corresponding financial reporting required by state and federal regulations.

Recommendations

The **Department** should evaluate the policies and procedures used by the Department of Finance in order to determine the changes needed to improve all the deficiencies mentioned in this report. Among the things to be considered in preparing a corrective action plan are the following:

1. Restructuring of the accounting recording process in order to obtain the information needed to prepare the financial statements in accordance with GAAP.

2. Provide and/or increase trainings to accounting personnel related to accounting functions and generally accepted accounting principles of governmental entities.

3. Increase supervision over the tasks performed by the accounting personnel.

4. Develop an accounting manual. Written procedures, instructions, and the assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records.

5. Incorporate into the **Department's** accounting system the financial transactions of FEWTA related to capital assets.

Questioned Costs

None

Auditee Response

See Grantee 's Corrective Action Plan

Section II - Financial Statements Findings (Continued)

Finding Reference 2019-002

Requirement: Cash Accounts and Reconciliation Procedures

Type of Finding: Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-002**

Statement of Condition

During our audit procedures in the cash area, we noted the following deficiencies:

1. Balances of the bank accounts held by the Treasury Department of the Commonwealth of Puerto Rico in the governmental funds were not reconciled with PRIFAS system. There are no established procedures for the reconciliation of these accounts.

2. The **Department** maintains the responsibility over the preparation of several bank reconciliations of the General Fund, Work Opportunity Incentive Fund, and Special Revenue Funds. After our examination of bank reconciliations prepared by the accounting personnel of the **Department,** we noted that the accounting records and the general ledger had unreconciled differences in the cash accounts when compared with the bank reconciliations as follows:

Bank Account No.	Account Name	Difference
367-1002-8/030-051045/367-1701-2	Special Disbursement Officer	$ (13,067,240)
256-0006-8	Work opportunities Incentive Fund	$ (48,855,201)
256-0005-9	Administration of the Bureau of Employment Security	$ (19,161,961)
256-0003-2/030-050286	Auxiliary Special Fund (FAE)	$ (1,001,625)
200-3090-4	IBA'S Drivers	$ (2,854,548)
030-049806	IBA'S SINOT	$ (338,906)

3. The following bank reconciliations as of June 30, 2019 included reconciling items over fourteen years old:

   a. Account Number 367-1002-8 - Special Disbursement Officer
   b. Account Number 367-1701-2- Special Disbursement Officer-Payroll

Section II - Financial Statements Findings (Continued)

Finding No. 2019-002 (Continued)

4. The bank account reconciliation process followed by the **Department's** personnel does not include the reconciliation of the cash balance per bank with the balance of the general ledger account.

Criteria

Regulation Number 9, Regulation of Basic Rules for the Special Disbursement Officers appointed by the Secretary of the Treasury, Article XI (Bank Reconciliations) states the following:

1. If there are differences between the information provided by the bank and the records of the Special Disbursement Officer they shall be clarified before submitting the reconciliation for the approval of the Head of the Agency or the Authorized Representative. The Head of the Agency or his Authorized Representative should be informed if the above situation occurs.

2. The agencies will be responsible for immediately solving any difference arising in the bank reconciliation. Under no circumstances should any difference arising in that reconciliation remain unresolved for a period longer than 10 days. If the difference is not resolved during that period, the Treasury Department should not approve any funding request until the difference is clarified.

3. After the reconciliation is made, the person in charge of preparing it should certify it as correct and seek the approval of the Head of the Agency or the Authorized Representative.

4. The Special Disbursement Officer's reconciliation must be prepared within three days after receipt of the bank statement or, if more time is needed, an extension of five more days could be provided by the Head of the Agency.

Circular Letter No. 1300-47-08, "Instructions for the Special Disbursement Officers related to Deposits in Transit and Outstanding Checks in the bank reconciliation," states that:

1. Deposits in Transit - The person responsible for preparing the reconciliation of bank accounts shall segregate and total the deposits by fund number. Under no circumstances, requests for funds that are disbursed by electronic transfer must be considered as deposits in transit.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-002 (Continued)

2. Outstanding Checks - The person responsible for preparing the bank reconciliations shall segregate and aggregate them by fund number. In cases where a check affects two funds the amount of each fund should be detailed.

Regulation Number 19, Cancelled Checks, Article 4 (Cancellation of Checks with More than Six Months Issued), states that checks for state and federal funds issued through RHUM, PRIFAS or PRITAS system that meet six months of issuance and outstanding will be cancelled automatically and the amount thereof credited to their account of origin.

Cause of Condition

Lack of adequate procedures and supervision of the tasks performed by the accounting personnel in charge of preparing the bank reconciliations. Also, the **Department** needs the authorization of the Department of the Treasury for cleaning-up old reconciling items in order to adjust the balance of the general ledger of cash accounts under the Department of the Treasury's custody. The **Department** is waiting for such authorization.

Effect of Condition

Deficiencies previously mentioned do not permit adequate control over cash receipts and disbursements, the timely detection of irregularities and the proper reporting of the cash balance in the basic financial statements.

Recommendation

We recommend management the following:

1. Establish procedures for the preparation of monthly reconciliations of the accounting transactions of all cash accounts held by the Commonwealth of Puerto Rico Treasury Department. Implementation of this policy would allow management to take appropriate action on a timely basis to correct discrepancies that might arise due to bookkeeping errors, bank errors or misappropriation or misuse of funds as well as to provide an independent verification of the receipts and disbursements functions.

2. Differences in the bank reconciliation should be resolved in a reasonable period and all necessary adjustments should be posted to the general ledger account.

3. All bank accounts should be reconciled immediately upon receipt of the bank statement and should be reviewed by a responsible official. This review should be evidenced by the reviewer's initials and include the following procedures:

   a. The balance per bank shown in the reconciliation agrees with the bank statement.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-002 (Continued)

b. The balance per bank shown in the reconciliation agrees with the bank statement.
c. The reconciled balance agrees with the general ledger.
d. Review the reconciliation for unusual items.
e. The details of deposits in transit and outstanding checks are included in the bank reconciliation.
f. Outstanding checks for more than six months of issuance should be adjusted in the bank reconciliation.
g. Compare the reconciliation to the prior period for items outstanding not cleared during the current period.

4. Management should consider the consolidation of cash accounts whenever possible. With fewer bank accounts a tighter control over cash accounts can be achieved which would reduce the risk of misappropriated funds and resources needed to prepare the reconciliations.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Section II - Financial Statements Findings (Continued)

Finding No. 2019-003

Requirement: Financial Reporting: Subsidiaries of Accounts Receivable - Proprietary Funds

Type of Finding: Significant Deficiency in Internal Control (SD). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-003**

Statement of Condition

During our audit procedures over accounts receivable area, we noted the following deficiencies:

1. The aging of accounts receivable is not maintained for the following accounts:

   a. Accounts Receivable - Others (Unemployment Insurance Fund)
   b. Insurance Premiums (Drivers' Insurance Fund)

   A detail of the accounts mentioned above was provided in the Excel format instead of an aging of accounts receivable.

2. The Accounts Receivable Aging of Insurance Premiums from Drivers Insurance, Disability Insurance and Unemployment Insurance is not accurate. It has old balances and the **Department** uses as an alternative procedure a detail of subsequent collections to establish the balance of the accounts receivable.

3. The **Department** does not have an adequate methodology to record, review, and adjust the provision for bad debts.

Criteria

The Accounting Manual for the Drivers' Insurance Fund, Section 2.4.1, General Ledger Accounts, states that insurance premiums receivable should be detailed in an Accounts Receivable Subsidiary Ledger.

20 CFR 200.510, requires auditees to prepare financial statements that reflect its financial position, results of operations or changes in net assets for the fiscal year audited. Also, the accounting system established should be designed to reflect or provide complete and clear information related to the agency's financial results of operations. It should also provide accurate reports that act as a basis for the preparation and support of the budget needs and for the control and proper monitoring of this budget.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-003 (Continued)

Moreover, Act Number 230 of July 23, 1974 - *Puerto Rico Government Accounting Law,* as amended, stipulates that the accounting system established should be designed to reflect or provide complete and clear information related to the agency's financial results of operations.

Cause of Condition

The **Department** does not maintain the accounts receivable subsidiary ledger due to the inadequacy of its records. Also, there is a lack of analysis by management of the existing reports.

Effect of Condition

The **Department** has not been able to implement proper collection efforts of past due accounts and thus, the **Department's** accounting system does not properly present the financial results of the operations. Failure to perform a periodic analysis of amounts due to the **Department** and develop a consistent methodology to support the amounts recorded as uncollectible accounts receivable could result in a material misstatement of accounts receivable balance.

Recommendation

We recommend management the following:

1. A formal accounts receivable subsidiary aging should be established for those funds that do not have one.

2. Management should review periodically the insurance premiums receivable subsidiaries of the Disability Insurance and Unemployment Funds and eliminate old and uncollectible receivable balances.

3. The **Department** should implement controls to periodically review the accounts receivable and adopt a methodology to record, review, and adjust the provision for bad debts based upon historical collectability data.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-004

Requirement: Financial Reporting : Capital Assets

Type of Finding: Significant Deficiency in Internal Control (SD). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-004**

Statement of Condition

During our audit procedures over the capital assets area, we noted the following deficiencies:

1. The accounting system of the **Department** provides for the use of a capital assets module. This tool is not used to record capital assets, related depreciation and identifying information.

2. The **Department** did not provide us evidence of the physical inventory properly reconciled with the property ledgers as required by federal and state regulations.

3. Certain capital assets of the FEWTA were excluded from the financial statements.

Criteria

Act Number 230 of July 23, 1974, *Puerto Rico Government Accounting Law,* as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.

Regulation No. 11, Basic Standards for Control and Accounting for Fixed Assets, Section XIV (A) and (G) - Physical Inventory, establishes that the internal records of inventory must be supported by physical inventories; and the physical inventory should be checked against the internal records of the agency. In addition, Section XVI - General Dispositions, states that agencies must keep its own internal procedures for the control of fixed assets so that the property manager is aware of the acquisition and disposition thereof.

Cause of Condition

There are no adequate accounting policies and procedures for the reconciliation and analysis of the accounting transactions, specifically related to capital assets recording, retirement, depreciation and physical safeguarding.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-004 (Continued)

Effect of Condition

The **Department** is not in compliance with state and federal regulations. Also, failure to maintain an adequate property subsidiary might cause errors and misuse of the equipment purchased with federal funds that may result in questioned costs.

Recommendation

We recommend the **Department** to improve its internal control and procedures as follows:

1. Maintain accurate and complete property records that include a description of the property, a property ID number, source of property, acquisition date, original cost, federal share of the cost, property location and disposition data.

2. Results of physical inventory should be properly reconciles with the property records.

3. Adequate monitoring procedures must be implemented to improve efficiency of the operations.

4. The **Department** must ensure compliance with state and federal regulations related to capital assets.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-005

Requirement: Financial Reporting: Accounts Payable, Unearned Revenues, Benefits Payable, And Encumbrances)

Type of Finding: Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-005**

Statement of Condition

During our audit procedures over the account payable area, we noted the following:

Accounts Payable - Governmental Funds

1. The subsidiaries of accounts payable are not reconciled with the general ledger and are not being reviewed periodically. They required material adjustments to correct balances at year-end. Most of the funds accounts payable balances in the general ledger had the same or similar balances of the prior year.

2. The **Department** does not maintain a reconciled subsidiary breakdown of the accounts recorded in accounts L5030, L5010, - Vouchers Payable, L5250 and L5251 - Accounts Payable to Public Corporation and 5250- Advances Other Funds Payable as of June 30, 2019.

Unearned Revenues - Proprietary Funds

1. During our audit procedures, we observed that the Credit Employers Report from the Unemployment Insurance fund included credits collections for periods that could not be determined and also includes inactive employers. Therefore the balance of this account was overstated. **Department's** management made an analysis of the account and proposed an adjustment to correct the account balance.

Benefits Payable - Proprietary Funds

1. The subsidiaries of benefits payable are not maintained for the Drivers Insurance and Disability Insurance Funds. The **Department** has established procedures to determine balances of benefits payable at the end of the year for financial presentations based on existing claims.

Encumbrances - Governmental Funds

1. The subsidiaries of encumbrances are not reconciled with the general ledger accounts.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-005 (Continued)

Criteria

20 CFR 200.510 require auditees to prepare financial statements that reflect its financial position, results of operations or changes in net assets for the fiscal year audited. Also, the accounting system established should be designed to reflect of provide complete and clear information related to the agency 's financial results of operations. It also provides accurate reports that act as a basis for the preparation and support of the budget needs and for the control and proper monitoring of this budget.

Act Number 230 of July 23, 1974, *Puerto Rico Government Accounting Law,* as amended, states that the accounting system of the instrumentalities of the Commonwealth of Puerto Rico should be designed to reflect or provide complete and clear information related to their financial results of operations.

Cause of Condition

Lack of analysis by the **Department's** management and adequate procedures for reviewing and adjusting the subsidiaries at end of the month.

Effect of Condition

We were unable to determine proper recording and balances of liabilities since there were no reliable accounts payable subsidiary ledgers.

Recommendation

We recommend the following:

1. The Finance Department should maintain a subsidiary of all open invoices that must be reconciled on a monthly basis with the general ledger account balance. Differences and reconciling items should be investigated and adjusted on a timely basis. Management should review periodically the reports for accuracy and completeness.

2. The internal control structure over benefits payable should be reviewed in order to provide assurance of the appropriate reconciliation and recording of these obligations.

3. The subsidiaries of encumbrances should be reconciled with the general ledger accounts and a monthly basis.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-005 (Continued)

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Section II - Financial Statements Findings (Continued)

Finding No. 2019-006

Requirement: Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75

Type of Finding: Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-006**

Statement of Condition

Management has not implemented the accounting and financial reporting requirements for pensions that are set forth in the 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 **Department's** governmental activities has not been determined.

In addition, the **Department'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 plan. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 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 **Department'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.

Criteria

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the **Department** report in its financial statements its 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 net pension liability and the reporting of historical pension data as Required Supplementary Information.

Section II - Financial Statements Findings (Continued)

Finding No. 2019-006 (Continued)

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.

Cause of Condition

The **Department's** pension plan administrator has not provided the financial and technical information necessary for the properly implement the requirements set forth in of the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2019.

Effect of Condition

The **Department's** Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position for the fiscal year ended June 30, 2019. Also, the required supplementary information has been omitted.

Recommendation

We recommend the **Department** to maintain a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Cost

None

Auditee Response

See Grantee's Corrective Action Plan

Section III - Major Federal Award Program Findings and Questioned Costs

Finding No. 2019-007

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	All Federal Programs
Compliance Requirement:	Financial Reporting
Type of Finding:	Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-007**

Statement of Condition

As discussed in Findings **2019-001, 2019-002, 2019-004, 2019-005.** The **Department** has several deficiencies regarding internal control structure over financial reporting. Due to such failure, the **Department** does not have the ability to produce accurate federal reports on a timely basis and federal programs were not properly monitored as to compliance with applicable laws and regulations. Refer to those findings for more detail.

Criteria

Refer to findings **2019-001, 2019-002, 2019-4, 2019-005**

Cause of Condition

Refer to findings **2019-001, 2019-002, 2019-4, 2019-005**

Effect of Condition

Refer to findings **2019-001, 2019-002, 2019-4, 2019-005**

Recommendation

Refer to findings **2019-001, 2019-002, 2019-4, 2019-005**

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-008

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	17.225 Unemployment Insurance
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency in Internal Control (SD). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2018-008**

Statement of Condition

Our procedures performed in the financial and performance reporting requirements we noted the following instances of noncompliance:

(1) ETA 902 Disaster Unemployment Assistance reports for the periods ended 10/31/2018 and 4/30/2019 were submitted 314 and 133 days after due date, respectively.

Criteria

For the submission of ETA's 90-2 the ET Handbook 401 5th edition, established, instructions for use by State Workforce Agencies (SWAs) for the preparation and submittal of most Unemployment Insurance (UI) reports. ET Handbook No. 402, Unemployment Insurance Required Reports Handbook, which shows how to report through the UI electronic entry system and reports must be sent in time to arrive in the National Office by the due date.

For the submission of ETA 9130, *Financial Status Report, U/ Programs* -All ETA grantees are required to submit quarterly financial reports for each grant award. Instructions to comply with the submission deadlines are contained on **http://www.doleta.gov/grants**.

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-008 (Continued)

Based on 2 CFR 200.327 and 200 CFR 200.328 monitoring activities for reporting compliance requirement should include the review by external parties to corroborate information included in the reports of Federal awards or periodic comparison of reports to supporting records.

Cause of Condition

There no procedures in place to monitoring and reviewing federal reports before submitted them to Federal government. Lack of follow up due dates of federal reports by the personnel in charge to prepare them.

Effect of Condition

Reports submitted to the Federal government may contain errors and not be detected on time.

Recommendation

Additional training to personnel in charge of federal programs for timely reporting submittal. Procedures should be implemented to establish a review of the federal reports by an employee independent of preparing them before their submission to the Federal government.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-009

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	97.034 Disaster Unemployment Assistance
Compliance Requirement:	Eligibility-Disaster Unemployment Assistance (DUA)
Type of Finding:	Material Weakness in Internal Control (MW) and Noncompliance (NC)

This finding is similar to prior-year finding **2018-009**

Statement of Condition

The Department of Labor made improper payments for Disaster Unemployment Assistance claims for the second consecutive year, resulting in overpayments to DUA program for the year ended on June 30, 2019.

We examined 60 claims files selected in our sample which are detailed as follows: sixteen (16) claimants are Regular Unemployed Workers type which represents 27% of our sample; forty four (44) are Unemployed Self- Employed Individuals type, which represents 73% of our sample.

Based on our test performed of claimant's files for the Disaster Unemployment Assistance Program (DUA) paid during fiscal year ended on June 30, 2019, we noted the following documentation are missing on claimant's files:

- Based on our examination, we noted that 33.3% of the population did not file the initial application on claimant's file form PRSD 500 "Solicitud de Beneficios por Desempleo (based on 20 claimants of 60).

  For the sample covering the sixteen (16) regular unemployed workers, we noted the following:

- 38% did not provide a certification of the employers proving that they are unemployed due to the disaster. (Based on 6 regular employee claimants of 16).

- 12.5% did not include the form AD-14 "Hoja de Trabajo para Determinar Asistencia Semanal" (Based on 2 regular employee claimants of 16).

  For the sample covering the forty four (44) Self - Employee unemployed workers, we noted the following:

- 34% did not include the form AD-14 "Hoja de Trabajo para Determinar Asistencia Semanal" (Based on 15 self-employed claimants of 44).

Section III - Major Federal Award Program Findings and Questioned Costs (Continued) Finding No. 2019-009 (Continued)

- 75% did not file the PR-AD-1A an application with weekly gross salary information (Based on 33 self-employed claimants of 44).
- 61% did not include in the PR-AD-1A form the claimant's occupation information (Based on 27 self-employed claimants of 44).
- 61% did not include the claimant signature on the PR-AD-1A form. (Based on 27 self-employed claimants of 44).

The following information was missing in the PR-AD-1 for "Solicitud de Asistencia por Desempleo Ocasionado por Desastre" for the self- employee participants:

- 56% of the sample the files examined does not include the date of Unemployment. (Based on 25 self-employed claimants of 44).
- 61% did not include the gross salary information. (Based on 27 self-employed claimants of 44).
- 56% of the cases tested, the signatures of the participants are missing in the form PR–AD-1 (based on 25 self- employed claimants of 44).
- 79% of the interviewer signatures are missing in the form PR-AD-1 (Based on 35 self-employed claimants of 44).
- 91% of the claims tested are not signed by the UI supervisor (Based on 40 self- employee claimants of 44).
- 77% of the self- employee claims did not include the "Affidavit of Schedule Employment and Salaries" PR-AD-5 (Based on 34 self-employee claimants of 44).
- 86% of the self- employee claims did not include the "Affirmation of Self Employee Form" (Based on 38 self-employee claimants of 44).
- 88% did not include evidence of the progress of efforts to return to Self-Employment business activities. (Based on 39 self- employee claimants of 44).
- 75% did not include the Eligibility Determination of Entitlement Disaster. (Based on 33 self-employee claimants of 44).
- 79% did not include evidence of the interview by the UI staff to the claimant in order to documenting the eligibility process. (Based on 35 self-employee claimants of 44).
- 52% did not include Tax Returns in order to corroborate wages information. (Based on 23 self-employee claimants of 44).

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-009 (Continued)

For the total population tested (60 claimants) we noted the following:

- On 8 (1 regular employee and 7 self-employed) claimants' files we do not find evidence of salaries or compensation of the claimant for the evaluation and determination of the benefits to be paid by the Department under the provisions of the DUA program. Total payments made to this claimants amounted to $7,212 ($244 regular employee and $6,968 self-employed). Under these circumstances these cases might be considered over payments and, if not properly documented, shall be collected by the Department from the claimants.

  Also, we noted that the Department identified additional claimants with over payments of $24,851, from which $15,237 were recovered and the remaining $9,614 still uncollected at the date of our test. Accordingly, total possible overpayments identified during our testing amounted to $16,826, including $9,614 identified by the Department.

Criteria

The Federal Emergency Management Agency (FEMA) has delegated to the Secretary of Labor the responsibility for administering those provisions of the Stafford Act that pertain to the DUA program and payment of DUA. Under the DUA program, the SWA is accountable to DOL and, through DOL, to FEMA. The SWA works in coordination with both agencies in preparing prompt announcements regarding the availability of DUA, submitting initial and supplemental funding requests, and accurately reporting funding and workload information on DUA monthly and quarterly reports. Since FEMA has delegated to the Secretary of Labor the responsibility for administering the DUA program, FEMA transfers resources to DOL's Employment and Training Administration (ETA) to provide funding to States impacted by the disaster after a major disaster declaration has been made. The Disaster Unemployment Assistance (DUA) is authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act). DOL oversees the DUA program and coordinates with FEMA, which provides the funds for payment of DUA and for State administration. State Workforce Agencies administer the DUA program on behalf of the Federal Government.

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-009 (Continued)

Based on a request by the Governor of a State or the Chief Executive of a federally recognized Indian tribal government, the President declares a major disaster and authorizes the type(s) of Federal assistance to be made available and the geographic areas that have been adversely affected by the disaster. The Presidential declaration may authorize Individual Assistance (IA), which includes the provisions for DUA (20 CFR part 625).

Cause of Condition

Department's files do not provide evidence that its personnel request to the claimants the necessary wages and other relevant information to corroborate the information of the workers to properly process the claims filed and assesses their eligibility to the program. No proper documentation in SABEN system in PRSD Notes is made by UI staff to document the claims. No monitoring the eligibility process to properly make correct eligibility determinations. Lack of adherence to eligibility criteria and requirements by the **Department's** staff in charge of determining eligibility at regional offices.

Effect of Condition

The lack of workers' information at the date of the claim evaluation might prevent the **Department's** personnel to properly evaluate the eligibility of the claim causing overpayments of benefits.

Recommendation

We recommend that the **Department's** staff in charge of determining eligibility be oriented regarding this requirement criteria to ensure that the disaster compensation benefits are granted only to claimants that comply with all established requirements.

Department should continue to perform collection efforts to the workers which resulted with DUA benefits overpayments.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Finding No. 2019-010

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	17.225 Unemployment Insurance
Compliance Requirement:	Special Test & Provisions- UI Program Integrity - Overpayments
Type of Finding:	Material Weakness in Internal Control (MW) and Instance of Noncompliance (NC)

Statement of Condition

We examined 40 Unemployment's Insurance overpayments files selected in our sample. As a result of our testing we noted that seven (7) overpayments cases were not recovered by PRDOL. These cases represent 17.5% of our sample. Also, the "Billing Notice" and Account Statements" were not available for audit examination. The total overpayments of UI claims included on our testing not recovered by the **Department** amounted to $6,048.

Based on the result of the audit sample, the auditor could not validate the collection effort made by the Investigations and Determination of Overpayments Unit of the Employment Security Bureau of the **Department**. This is due to the fact that the platform called "Recover" used by the Unit to generate the "Billing Notices" has not been operating since November 2020.

Also, the Investigations Unit does not have an alternative procedure in place for the collection process in order to recover UI benefits overpayments.

Criteria

Unemployment Compensation Integrity Act of 2011 (Integrity Act), Pub. L. No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of FUTA to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, and 02-12, Changes 1 and 2).

Cause of Condition

Deficiencies in the programmatic system related on overpayments UI benefits.

Effect of Condition

The **Department's** automated procedures related to the notice of overpayments sent to individuals had not been reviewed and actualized. Errors in the programming of automated systems from external IT contractors exist, and since November 2020 the billing of notice and account statements have not been set to individuals with overpayments.

Finding No. 2019-010 (Continued)

Recommendation

The department and state agencies that administer UC program have made the prevention of improper payments a high priority in order to maintain the integrity of the UC program.

We recommend that the **Department** maintain an alternative written procedure for identifying overpayments and classifying them in a manner that allows the State to take appropriate follow-up action. To improve the recovery of all applicable overpayments, the **Department** should develop a billing tracking mechanism to monitor these issues.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

Finding No. 2019-011

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	All Federal Programs
Compliance Requirement:	Reporting
Type of Finding:	Significant Deficiency (SD) and Instance of Noncompliance (NC)

Statement of Condition

The Data Collection Form and the Reporting Package for the year ended June 30, 2019 was not timely submitted to the federal government. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30-day after the receipt of the auditor's reports or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. No extension from the cognizant or oversight agency was noted.

Criteria

The Uniform Guidance 2 CFR Section 200.512(a) requires the audit to be completed and the reporting package and data collection form be submitted to the Federal Audit Clearinghouse ("FAC") nine months after the end of the audit period.

Cause of Condition

The **Department** has not been able to provide the necessary information for the preparation of the single audit report on a timely basis in order to complete its reporting requirement for the fiscal year ended on June 30, 2019.

Effect of Condition

The **Department** is not complying with the reporting requirements set forth by federal regulations, which could affect the future of its federal grants.

Recommendation

The **Department** should adopt policies and procedures to ensure that the annual audit is performed and submitted in a timely manner.

Questioned Costs

None

Section Ill - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-011 (Continued)

Auditee Response

See Grantee’s Corrective Action Plan

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-001	We concur with the finding.	Over the last four years, the people of Puerto Rico have come through unprecedented hardships, including catastrophic hurricanes, political upheaval, earthquakes, and now the worldwide COVID-19 pandemic. On June 30th, 2016, President Barack Obama signed into law the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) to create an oversight of the Island's budget and fiscal policies for the next few years. For nearly five years, the Financial Oversight and Management Board for Puerto Rico ("FOMB" or the "Oversight Board") has worked to fulfill the mandate of PROMESA. To ensure fiscal sustainability the Oversight Board implement fiscal plans to improve government. Fiscal Plans have included a set of fiscal measures that aim to create robust fiscal controls and accountability. The Oversight Board has worked hand-in-hand with Government agencies to craft clear pathways for each reform and reduce barriers to change. In connection with the fiscal and economic emergency status the Commonwealth of Puerto Rico have acknowledged that (1) the central government's financial and payroll systems are obsolete and cannot communicate with the systems of principal agencies, such as the Department, and (2) that the lack of integration of agencies under the same platform hinders the ability to timely monitor expenses, complete annual audits and publish accounting financial statements. The Commonwealth is planning to implement a new financial/accounting and payroll system that unifies the patchwork of governmental platforms, which affect the government and its agencies' ability to properly monitor its fiscal situation and result in material delays in the preparation of financial information. The new accounting system was expected to be installed through fiscal year 2020-2021, but due to the limitation cause by the pandemic has been delayed.

Phone: (787) 754-5353

Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-001 Accounting System		Implementation Date: July 2022 Responsible Individuals: Ms. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez

JUNE 30, 2021

COMMONWEALTH OF PUERTO RICO **CORRECTIVE ACTION PLAN**
DEPARTMENT OF LABOR AND HUMAN RESOURCES **FOR THE YEAR ENDED JUNE 30, 2019**

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-002 Cash Account and Reconciliation Procedures	We concur with the finding.	1. Please refer to answer 1 for finding 2018-001. 2. The **Department** has assigned a team of employees to work on identifying the established differences. Up to date, they are working on account reconciliations. 3. Since the **Department** needs an express authorization from the PR Treasury Department to adjust reconciling items when over six years old, the Department has been in contact with the PR Treasury Department to establish a work plan to adjust accounting records. Currently, PRDOL started a process with the Treasury Department to eliminate pending transactions for the periods from 1995 to 2010. 4. The **Department** continues with the reconciliations of cash balances per bank with the balances in the general ledger. More specifically, for the UI account from July 2012 they are now and has finished it up to July 2020. Implementation Date: December 2021 Responsible Individuals: Ms. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Ms. Emma R. Jiménez

JUNE 30, 2021

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-003 Financial Reporting: Subsidiaries of Accounts Receivable – Proprietary Funds	We concur with the point 1 & 2 and do not concur with the point 3 of the finding.	1. Please also refer to answer 1. in finding 2019-001. 2. Please refer to answer 1. for finding 2019-001. 3. The methodology used by the **Department** is one determined by management and used as an estimate to calculate the provision of bad debts. The **Department** understands that the methodology used is conservative and practical. Implementation Date: December 2021 Responsible Individuals: Mr. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director Disability Program Director Driver's Program Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Ms. Emma R. Jiménez

JUNE 30, 2021

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019

Phone: (787) 754-5353

Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-004 Financial Reporting: Capital Assets	We concur with the finding.	1. The capital asset module is managed by the Puerto Rico Department of Treasury, and the **Department** is not authorized to access area of the system. The **Department** does have a capital asset detail in Excel format used to record the asset details, and for financial reporting purposes the calculation of depreciation is also completed. No exceptions were mentioned on this. 2. The **Department** performs annual inventories and submits required data to the PR Department of Treasury for the consolidation of data, as all other government do. 3. Please refer to answer 1. for finding 2019-001. Implementation Date: December 2021 Responsible Persons: Ms. Emma R. Jiménez Auxiliary Secretary Ms. Yesenia Rivera Finance Director Administrative Services Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R Ji. a.

Ms. Emma R. Jiménez

JUNE 30, 2021

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019

Phone: (787) 754-5353

Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-005 Financial Reporting: Accounts Payable, Unearned Revenues, Benefits Payable, And Encumbrances Financial Reporting: Accounts Payable, Unearned Revenues, Benefits Payable, And Encumbrances	We concur with the finding.	For Accounts Payable points 1 & 2, please refer to answer 1. for finding 2019-001. Unearned Revenues - The Department are working with the Information Technology Area to produce customized reports that would help the Finance Division resolve this matter. Benefits Payable - Please refer to answer 1. for finding 2019-001. Encumbrances - The Department has assigned personnel to work on this reconciliation. They have completed reconciliations up to fiscal year 2018. Implementation Date: December 2021 Responsible Individuals: Ms. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director Worker's Benefit Auxiliary Secretary Driver's Insurance Director UI Program Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez

JUNE 30, 2021

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-006 Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75	We concur with the finding.	The **Department's** pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued the audited financial information necessary for the proper Implementation of GASB 73 & 75 for the fiscal year ended June 30, 2018, and as a result, the **Department** could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 73 and 75. Implementation Date: To be determined, not under the control of the **Department**. Responsible Individuals: Ms. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez

JUNE 30, 2021

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-007 Financial Reporting	We concur with the finding.	Refer to findings **2019-001**, **2019-002**, **2019-004** and **2019-005** for management's corrective action plan. Implementation Date: To be determined, not under the control of the **Department**. Implementation Date: Throughout fiscal year 2020. Responsible Individuals: Ms. Emma R. Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director Worker's Benefit Auxiliary Secretary Driver's Insurance Director UI Program Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez

JUNE 30, 2021

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019

Phone: (787) 754-5353

Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-008 Reporting	We concur with the finding.	The Department's management has discussed with the Finance Director and the Worker's Benefit Auxiliary Secretary the importance of timely filing all ETA reports and continues to work toward full compliance. Implementation Date: December 2021 Responsible Individuals: Worker's Benefits Auxiliary Secretary Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez

JUNE 30, 2021

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-009 Eligibility – Disaster Unemployment Assistance (DUA)	We concur with the finding.	Most of the overpayment was identified by the **Department** and most of the overpayment are related to failure to provide required documentation by the individual on a reasonable period, those payments were already invoiced to the unproper beneficiary, also as of June 30, 2020, $15,237 were collected. The **Department** continue their effort to collect all the overpayment a soon as possible, and those effort includes deducts on future benefits, phone calls, send notifications by mail, and by email in the case we have. Implementation Date: Throughout fiscal years 2020 and 2021. Responsible Individuals: Worker's Benefits Auxiliary Secretary

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Ji. G.

Ms. Emma R. Jiménez **JUNE 30, 2021**

Phone: (787) 754-5353 Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-010 Special Tests and Provisions – UI Program Integrity - Overpayments	We concur with the finding.	Most of the overpayment was identified by the **Department** and most of the overpayment are related to failure to provide required documentation by the individual on a reasonable period. The uncollected amount was due to a failure on the collection platform that has been already corrected. The **Department** continue their effort to collect all the overpayment a soon as possible, phone calls, send notifications by mail, and by email in the case we have. Implementation Date: Throughout fiscal years 2020 and 2021. Responsible Individuals: Worker's Benefits Auxiliary Secretary

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Jiménez

Ms. Emma R. Jiménez **JUNE 30, 2021**

Phone: (787) 754-5353

Fiscal Year: 2018-2019

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

Audit Period: July 1, 2018 – June 30, 2019

Principal Executive & Contact Person: Ms. Emma R. Jiménez, Auxiliary Secretary of Management Affairs

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2019-011 Reporting	We concur with the finding.	Because of the uncertainty and unpredictability impact of the COVID-19 pandemic and limitation due to the Governmental Lockdown, the Data Collection Form and the Reporting Package was not timely submitted. The **Department** has developed a plan following the requirements of the Commonwealth of Puerto Rico for the financial statements of the government agencies. The plan is to issue 2020 financial statements and single audit during the third quarter of 2021, and the 2021 financial statements should be issued on or before March 31, 2022. Implementation Date: Throughout fiscal years 2020 and 2021. Responsible Individuals: Ms. Emma Jiménez, Auxiliary Secretary Ms. Yesenia Rivera, Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Emma R. Ji. G.

Ms. Emma R. Jiménez

JUNE 30, 2021

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2018-001	***Accounting System***		
	During the audit of the **Department's** basic financial statements for the fiscal year ended June 30, 2018, we noted the following deficiencies in the accounting system:		
	1. The accounting records are primarily designed for the recording of revenues, expenditures, and other limited transactions on a cash basis and not to provide the necessary information needed for the preparation of financial statements in accordance with generally accepted accounting principles. The conversion of the financial information of the accounting system obtained from a modified accrual to a full accrual basis requires a significant effort by the **Department** and the recording of several adjusting entries in order to account for unrecorded transactions such as the accrual of receivables, accounts payable, unearned revenue, benefits payable, compensated absences, capital assets transactions, or to correct transactions accounted for in the incorrect accounting period.	In process	2019-001 (item 1)
	2. As established in the Reorganization Plan Number 4 of December 9, 2011, the operations, employees, assets and functions of the Future Entrepreneurs and Worker's Training Administration were transferred to the **Department** effective January 8, 2012. During 2013 the beginning balances and the transactions related to the operations of FEWTA were recorded in the **Department's** accounting records, but the balances related with certain capital assets could not be estimated in order to be recorded. These capital assets were excluded from the 2017 financial statements.	In process	2019-001 (item 2)
	3. No adequate and timely recording procedures are performed in the general ledger accounts.	In process	2019-001 (item 3)
	4. Interfund transactions are not properly recorded and reconciled in the accounting records during the year. They required material adjustments at year-end.	In process	2019-001 (item 4)
	5. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.	In process	2019-001 (item 5)
	6. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts payable area.	In process	2019-001 (item 6)
	7. During our cut-off, substantive and analytical procedures related to revenues and expenses, we noted that certain transactions were not recorded in the proper accounting period.	In process	2019-001 (item 7)
	8. The **Department** has inadequate and/or incomplete budgeting control over financial transactions charged to federal grant awards. During our audit procedures, we noted that the costs charged to several grants during the grant period exceeded the amount approved in the award.	Corrected	N/A
	9. The **Department** does not have an accounting manual to be followed on significant areas such as collections, disbursements, accounts receivable, accounts payable, capital assets, purchases, and monthly and annual closings of books.	In process	2019-001 (item 8)
	Please refer to findings **2018-002**, **2018-003**, **2018-004** and **2018-005** for deficiencies in cash, accounts receivable, capital assets and accounts payable, respectively.		

SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2018-002	***Cash Accounts and Reconciliation Procedures*** During our audit procedures in the cash area, we found the following deficiencies:		
	1. Balances of the bank accounts held by the Treasury Department of the Commonwealth of Puerto Rico in the governmental funds were not reconciled with PRIFAS system. There are no established procedures for the reconciliation of these accounts.	In process	2019-002 (item 1)
	2. The **Department** maintains the responsibility over the preparation of several bank reconciliations of the General Fund, Work Opportunity Incentive Fund, and Special Revenue Funds. After our examination of bank reconciliations prepared by the accounting personnel of the **Department,** we noted that the accounting records and the general ledger had unreconciled differences in the cash accounts when compared with the bank reconciliations as follows: 367-1002-8 Special Disbursement Officer $ (12,990,041) 256-0006-8 Cash FOT PRIFAS (63,405,146) 256-0005-9 Administration of the Bureau of Employment Security (19,161,960) 256-003-2/030-50286 Fondo Auxiliar Especial (1,009,104)	In process	2019-002 (item 2)
	3. The following bank reconciliations as of June 30, 2018 included reconciling items over fourteen years old: - Account Number 367-1002-8 - Special Disbursement Officer - Account Number 367-1701-2- Special Disbursement Officer-Payroll	In process	2019-002 (item 3)
	4. The bank account reconciliation process followed by the **Department's** personnel does not include the reconciliation of the cash balance per bank with the balance of the general ledger account.	In process	2019-002 (item 4)
2018-003	***Financial Reporting: Subsidiaries of Accounts Receivable – Proprietary Funds*** During our audit procedures over accounts receivable area we noted the following deficiencies:		
	1. The aging of accounts receivable is not maintained for the following accounts: a. Accounts Receivable - Others (Unemployment Insurance Fund) b. Insurance Premiums (Drivers' Insurance Fund)	In process	2019-003 (item 1)
	A detail of the accounts mentioned above was provided in the Excel format instead of an aging of accounts receivable.		
	2. The Accounts Receivable Aging of Insurance Premiums from Drivers Insurance, Disability Insurance and Unemployment Insurance is not accurate. It has old balances and the **Department** uses as an alternative procedure a detail of subsequent collections to establish the balance of the accounts receivable.	In process	2019-003 (item 2)
	3. The **Department** does not have an adequate methodology to record, review, and adjust the provision for bad debts.	In process	2019-003 (item 3)

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2018-004	***Financial Reporting: Capital Assets***		
	During our audit procedures over the capital assets area we noted the following deficiencies:		
	1. The accounting system of the **Department** provides for the use of a capital assets module. This tool is not used to record capital assets, related depreciation and identifying information.	In process	2019-004 (item 1)
	2. The **Department** did not provide us evidence of the physical inventory properly reconciled with the property ledgers as required by federal and state regulations.	In process	2019-004 (item 2)
	3. Certain capital assets of the FEWTA were excluded from the financial statements.	In process	2019-004 (item 3)
2018-005	***Financial Reporting: Accounts Payable, Unearned Revenues, Benefits Payable, and Encumbrances***		
	During our audit procedures over the accounts payable area, we noted the following:		
	Accounts Payable – Governmental Funds:		
	1. The subsidiaries of accounts payable are not reconciled with the general ledger and are not being reviewed periodically. Most of the funds accounts payable balances in the general ledger had the same balances of the prior year.	In process	2019-005 (item 1)
	2. The **Department** does not maintain a reconciled subsidiary breakdown of the accounts recorded in accounts L5030 and L5010 – Vouchers Payable, L5250 and L5251 – Accounts Payable to Public Corporation and 5250 - Advances Other Funds Payable as of June 30, 2017.	In process	2019-005 (item 2)
	Unearned Revenues – Proprietary Funds		
	1. During our audit procedures, we observed that the Credit Employers Report from the Unemployment Insurance fund included credits collections for periods that could not be determined and also include inactive employers. Therefore, the balance of this account was overstated. **Department's** management made an analysis of the account and proposed an adjustment to correct the account balance.	In process	2019-005 (item 1)
	Benefits Payable – Proprietary Funds		
	1. The subsidiaries of benefits payable are not maintained for the Drivers Insurance and Disability Insurance Funds. The **Department** has established procedures to determine balances of benefits payable at the end of the year for financial presentations based on existing claims.	In process	2019-005 (item 1)
	Encumbrances – Governmental Funds		
	1. Subsidiaries of encumbrances are not reconciled with the general ledger accounts.	In process	2019-005 (item 1)

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2018-006	**Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans**		
	Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the 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 Department's governmental activities has not been determined.	In process	2019-006
	In addition, the **Department'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 cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.	In process	2019-006
	Also, Management has not implemented the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 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 **Department'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.	In process	2019-006
2018-007	**U.S. DEPARTMENT OF LABOR**		
	Financial Reporting – All Federal Programs Reportable Condition		
	As discussed in Findings **2018-001**, **2018-002**, **2018-004**, and **2018-005**, The **Department** has several deficiencies regarding internal control structure over financial reporting. Due to such failure, the **Department** does not have the ability to produce accurate federal reports on a timely basis and federal programs were not properly monitored as to compliance with applicable laws and regulations. Refer to those findings for more detail.	In process	2019-007

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2018-008	**U.S. DEPARTMENT OF LABOR** **17.225 – Internal Control over Reporting Compliance** ***Internal control over reporting compliance*** Our procedures performed in the financial and performance reporting requirements we noted the following instances of noncompliance:	Partially Corrected	2019-008
	• ETA 902 Disaster Unemployment Assistance for the period end 10/31/2017 and 4/30/2018 with 145 and 107 days late, respectively.	In process	2019-008
	• ETA 9130 Quarterly Report for the period ended on 9/30/2017 – 75 days late, does note comply with the extension deadline granted by the federal government.	Corrected	N/A
	• ETA 9130 – Quarterly Report for the period ended in 9/30/2017 and grant ID ES294354G0 was submitted 18 days late to the federal government. (Due Date as per Extension granted by the federal government was 12/31/2017.	Corrected	N/A
	• ETA 9130 Quarterly Report for the period ended in 9/30/2017 and grant ID ES310108Y0 was submitted 9 days late to the federal government (Due date as per Extension granted by the federal government was 12/31/2017.	Corrected	N/A
2018-009	**U.S. DEPARTMENT OF LABOR** **97.034 – Disaster Unemployment Assistance (DUA)** ***Eligibility test*** On a test of eligibility performed over 60 files, we noted certain situations related to the case documentation. Certain documents were not included on the claim file or were not provided for examination. Also, several overpayments on claims were identified. Total questioned cost related to those overpayments amounted to $239,791.	In process	2019-009