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, 2020

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* The Uniform Guidance)

For The Fiscal Year Ended June 30, 2020

TABLE OF CONTENTS

TABLE OF CONTENTS (CONTINUED)

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

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

INDEPENDENT AUDITORS' REPORT

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, 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, 2020, and the related notes to the financial statements. We were engaged to audit the financial statements of the Business-Type Activities and the Unemployment Insurance Fund. These financial statements 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. Because of the matter described in the "Basis for Disclaimer of Opinions on Business-Type Activities and Unemployment Insurance Fund" paragraph, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Unemployment Insurance Fund and on Business-Type Activities.

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 **Department'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 **Department'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.

Except for the matter described in the "Basis for Disclaimer of Opinions on Business-Type Activities and Unemployment Insurance Fund" Paragraph", we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions:

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

Basis for Disclaimer of Opinions on Business-Type Activities and Unemployment Insurance Fund

As of the date of our report, the **Department** was unable to provide complete and accurate information associated with their determination of potential non-fraud and fraudulent overpayments within the CARES Act Unemployment Insurance Program (UI). The **Department's** records do not permit us, nor is it practical to extend other auditing procedures, to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the Business-Type Activities and the Unemployment Insurance Fund were free of material misstatement. As a result of this matter, we were unable to determine whether further audit adjustments may have been necessary.

Disclaimer of Opinions on Business-Type Activities and Unemployment Insurance Fund

Because of the significance of the matter described in the "Basis for Disclaimer of Opinions on Business-Type Activities and Unemployment Insurance Fund" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the financial statements for the Business-Type Activities and the Unemployment Insurance Fund of the **Department**. Accordingly, we do not express an opinion on these financial statements.

Basis for Qualified Opinions on Governmental Activities

Noncompliance with GASB Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments"

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.

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"

Basis for Qualified Opinions on Governmental Activities (Continued)

The Retirement System Administration (ERS) has not provided to the Vocational Rehabilitation Administration (a component unit of the Department) the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2020. 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 Vocational Rehabilitation Administration's governmental activities has not been determined. In addition, the pension plan administrator has not provided to the Vocational Rehabilitation Administration with the audited schedules of employment allocations an OPEB amounts by employer as of June 30, 2019 (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, 2020. 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 of the Vocational Rehabilitation Administration have been omitted.

Qualified Opinions on Governmental Activities

In our opinion, based on our audits, except for the matters described in the "Basis for Qualified Opinions on Governmental Activities" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities of the **Department** as of June 30, 2020, 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 audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Work Opportunity Incentive Fund, the Vocational Rehabilitation Administration Fund, the Disability Insurance Fund, the Drivers' Insurance Fund, the Aggregate Remaining Fund Information and the Agency Fund of the **Department**, as of June 30, 2020, 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, the Agency Fund and the Aggregate Remaining Fund information of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Department**. Accordingly, they do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2020, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter (Continued)

Restatement of Prior Year Financial Statements

As discussed in **Note 17**, to the financial statements, the **Department's** financial statements for fiscal year ended June 30, 2019 have been restated to adjust and/or recognize total pension liability, total other postemployment benefits liability, and deferred outflows/inflows of resources. Also those financial statements were adjusted to correct the balance of cash accounts and accounts payable.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **6** through **21**, Schedule of Budgetary Comparison-General Fund on page **92,** and the schedules of proportionate share of collective total pension liability and total other post-employment benefits on pages **95** and **96,** respectively, 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.

Supplementary 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 August 12, 2022, 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
August 12, 2022

Stamp No. E486859 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, 2020.

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 focused 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

Government-Wide Highlights

- The total liabilities of the **Department**, on a government-wide basis, exceeded its total assets by $168.7 million at the close of fiscal year 2020.

- Total assets of the **Department** amounted to $1,527.8 million, which represents an increase of $268.8 million, or 21.35% increase, compared with fiscal year 2019, as restated. Total liabilities of the **Department** amounted to $1,696.5 million, which represents an increase of $830.2 million, or 95.83% increase, as compared with fiscal year 2019, as restated.

- The net position of the **Department** decreased by $541 million, a decrease of 141.07%.

- Total operating revenues amounted to $2,872 million for the fiscal year ended June 2020, showing an increase of $2,519.4 million, or 714.61%, during the current fiscal year when compared to last fiscal year 2019 totals, as restated.

- Total operating expenses amounted to $3,431.8 million for the fiscal year ended June 2020, which represents an increase of $3,214.6 million, or 1479.85%, when compared to fiscal year 2019, as restated.

The following table presents the Condensed Statements of Net Position of the **Department** as of June 30, 2020 and 2019, in thousands:

FINANCIAL HIGHLIGHTS (CONTINUED)

Condensed Statements of Net Position

	Governmental Activities		Business - type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current assets	$246,082	$459,951	$1,245,760	$764,562	$1,491,842	$1,224,513
Non-current assets	6,099	6,365	29,835	28,059	35,934	34,424
Total assets	$ 252,181	$ 466,316	$1,275,595	$ 792,621	$1,527,776	$1,258,937
Deferred outflows of resources	$ 40,714	$ 25,809	$ 4,288	$ 2,718	$ 45,002	$ 28,527
Current liabilities	56,853	277,944	1,136,358	62,419	1,193,211	340,363
Non-current liabilities	455,923	476,075	47,333	49,836	503,256	525,911
Total liabilities	$ 512,776	$ 754,019	$1,183,691	$ 112,255	$1,696,467	$ 866,274
Deferred inflows of resources	$ 30,587	$ 34,297	$ 3,221	$ 3,432	$ 33,808	$ 37,729
Net position:						
Invested in capital assets	6,099	6,365	6	12	6,105	6,377
Restricted for benefit payments	-	3,295	116,998	722,801	116,998	726,096
Unrestricted	(256,567)	(305,851)	(24,033)	(43,161)	(280,600)	(349,012)
Total net position (deficit)	($250,468)	($296,191)	92,971	$679,652	($157,497)	$383,461

The following table presents the Condensed Statements of Activities of the **Department** for the years ended June 30, 2020 and 2019, in thousands:

Condensed Statements of Activities

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Operating revenues	$116,289	$127,770	$2,755,717	$224,794	$2,872,006	$352,564
Operating expenses	115,348	140,975	3,316,471	76,249	3,431,819	217,224
Operating income (loss)	941	(13,205)	(560,754)	148,545	(559,813)	135,340
Non-operating revenues	643	1,167	18,212	16,933	18,855	18,100
Income (loss) before transfers	1,584	(12,038)	(542,542)	165,478	(540,958)	153,440
Transfers from (to) other funds	44,138	42,937	(44,138)	(44,023)	-	(1,086)
Net change in net position	45,722	30,899	(586,680)	121,455	(540,958)	152,354
Net position (deficit), beginning of year, as restated	(296,190)	(327,090)	679,651	558,197	383,461	231,107
Net position (deficit), end of year	($250,468)	($296,191)	$92,971	$679,652	($157,497)	$383,461

FINANCIAL HIGHLIGHTS (CONTINUED)

Governmental Fund Highlights

- The total assets of the **Department**, on a governmental fund basis, exceeded its total liabilities by $313.7 million at the close of fiscal year 2020.
- Total assets of the **Department** amounted to $1,523.7 million, which represents an increase of $258.1 million, or 20.39% increase, compared with fiscal year 2019, as restated. Total liabilities of the **Department** amounted to $1,210 million, which represents an increase of $812.3 million, or 204.28% increase, as compared with fiscal year 2019, as restated.
- Total fund balance of the governmental funds amounted to $221.8 million at June 2020, reflecting an increase of $36.8 million, or 19.88% when compared to last fiscal year.
- Total net position of the proprietary funds amounted to $93 million at June 2020, reflecting a decrease of $586.7 million, or 86.32% when compared to last fiscal year.

Condensed Balance Sheet

	Governmental Fund Results – Balance Sheet					
	Governmental Funds		Proprietary Funds		Total	
	2020	2019	2020	2019	2020	2019
Total assets	$246,082	$471,082	$1,277,584	$794,506	$1,523,666	$1,265,588
Deferred outflows of resources	$0	$0	$4,288	$0	$4,288	$0
Total liabilities	$24,324	$282,804	$1,185,680	$114,854	$1,210,004	$397,658
Deferred inflows of resources	$0	$3,295	$3,221	$0	$3,221	$3,295
Total fund balances / Net position	$221,758	$184,983	$92,971	$679,652	$314,729	$864,635

Condensed Governmental Fund Results Analysis – Statement of Revenues, Expenditures and Changes in Fund Balances

	Governmental Fund Results Analysis – Statement of Revenues, Expenditures and Changes in Fund					
	Governmental Funds		Proprietary Funds		Total	
	2020	2019	2020	2019	2020	2019
Total revenues	$120,228	$125,642	$222,501	$223,454	$342,729	$349,096
Total expenditures	127,591	137,843	3,316,471	76,249	3,444,062	214,092
Operating income (loss)	(7,363)	(12,201)	(3,093,970)	147,205	(3,101,333)	135,004
Total other financing sources (uses)	44,138	42,936	2,507,289	(25,750)	2,551,427	17,186
Net change in net position	36,775	30,735	(586,681)	121,455	(549,906)	152,190
Total fund balances / Net position, beginning of year	184,983	154,248	679,652	558,197	864,635	712,445
Total fund balances / Net position	$221,758	$184,983	$92,971	$679,652	$314,729	$864,635

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, plus deferred outflows of resources less liabilities, plus deferred inflows of resources with the difference 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 **22** to **24** 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 **25** and **27** 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 **29** to **31** 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 **32** 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 **33** through **91** of this report.

Other Information: The required supplementary information is included immediately following the notes to basic financial statements. This section includes:

a) the Budgetary Comparison Schedule - General Fund with the related Notes to Budgetary Comparison Schedule - General Fund and can be found on pages **92** through **94** of this report. A Budgetary Comparison Schedule has been provided for the general fund to demonstrate its compliance with the annual budget appropriations; and

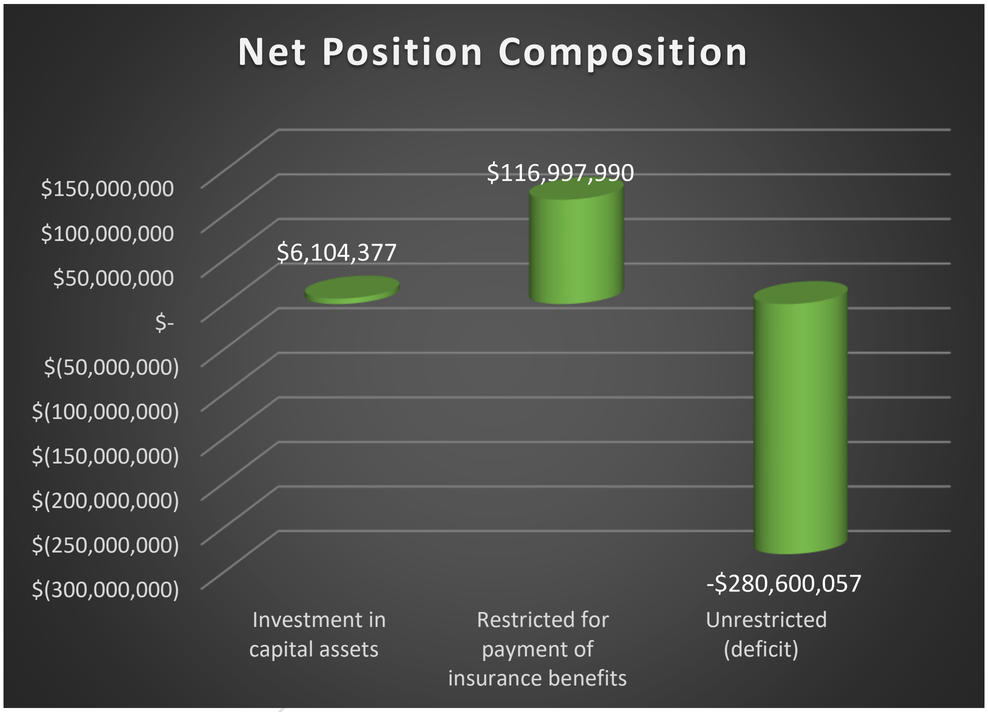
b) the Required Supplementary Information Schedules of Proportionate Share of Other Post-Employment Benefits and Total Pension Liability with the related Notes to Schedules of Proportionate Share of Other Post-Employment Benefits and Total Pension Liability included on pages **95** through **97** of this report.

This space was intentionally left in blank

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** deficit amounted to $157.5 million at June 30, 2020. The major classifications of the net position at June 30, 2020 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 decreased by $541 million during the fiscal year 2020 compared to 2019, as restated. The change in net position is composed of an increase change in net position of $45.7 million from governmental activities and a decrease in net position of $586.7 million from business-type activities. The net decrease was due mainly to an increase on operating expenses of $3,240.2 million.

Governmental Activities

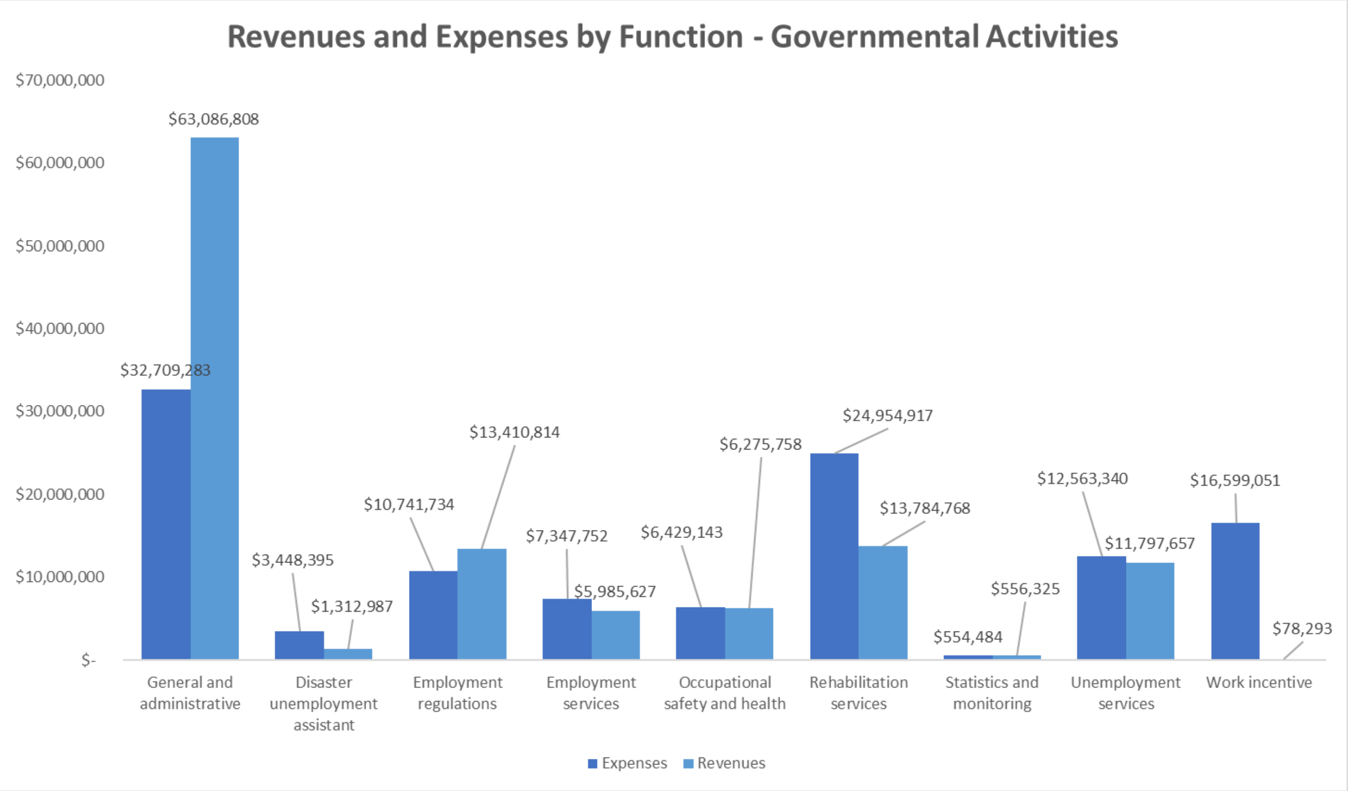
The Governmental activities revenues exceeded its expenses by $940.9 thousand. Additionally, there were unrestricted investment earnings and transfers from business-type activities of $643.3 thousand and $44.1 million, respectively, all of which resulted in an increase in net position from Governmental activities of $45.7 million. Operating grants and contributions assigned to governmental activities represent approximately 4.39% of the total revenues of the **Department**. The **Department's** governmental activities major sources of revenues are accounted for as general and administrative, employment regulations, rehabilitation services functions, and unemployment services. Those revenues represent 87.78% of the total governmental activities revenues for the year ended June 30, 2020. In comparison with fiscal year 2019, as restated, revenues from the Governmental activities of the **Department** decreased by $11.5 million.

The largest expenses in 2020 were general and administrative and rehabilitation services, which accounted for 49.99% of total governmental activities expenses. In comparison with fiscal year 2019, as restated, total expenses from governmental activities of the **Department** decreased by $25.6 million.

This space was intentionally left in blank.

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, 2020:



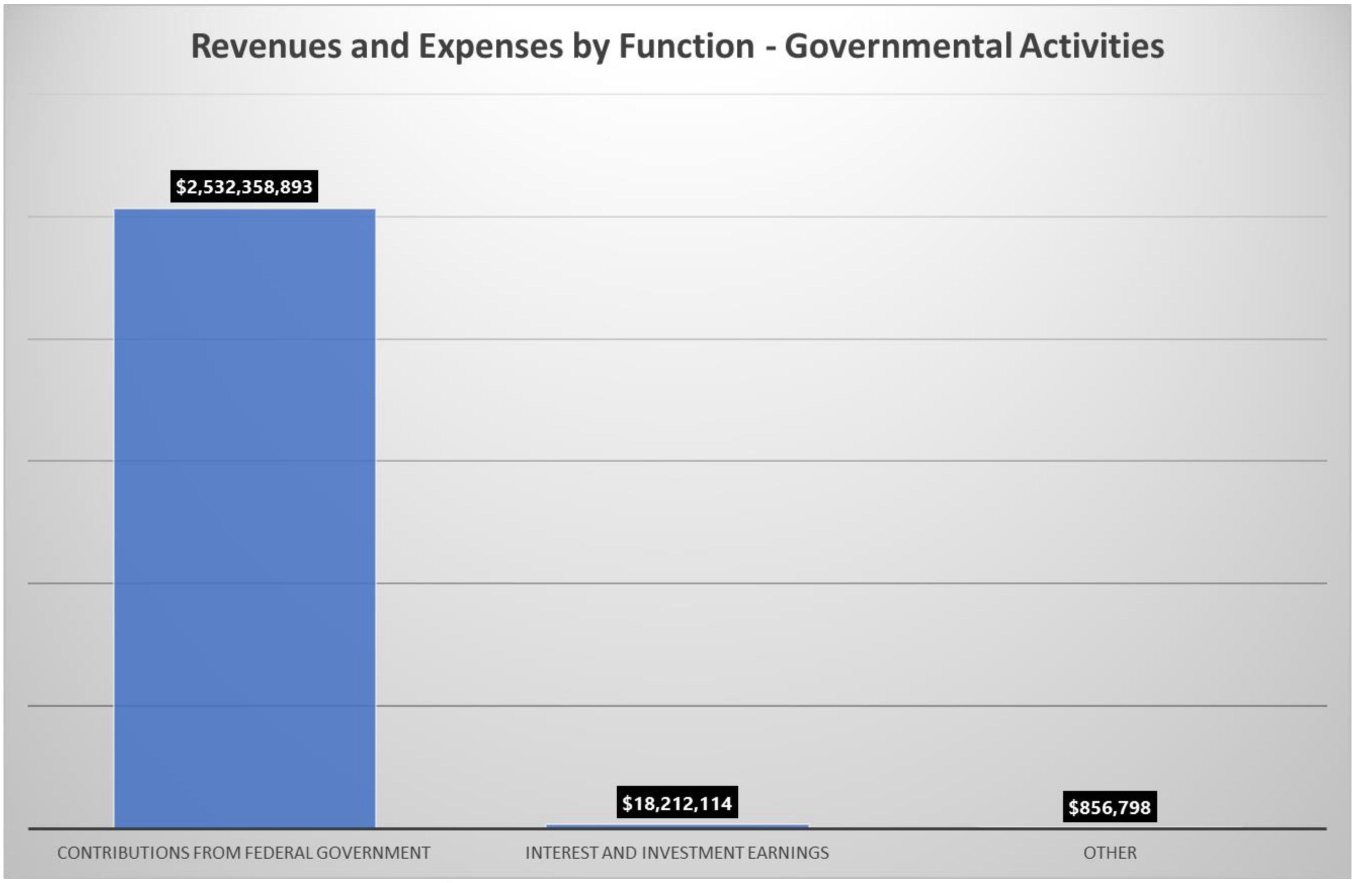
Business type-Activities

The **Department's** major sources of revenues are derived from the business-type activities, which represented 95.95% and 63.38% of total revenues from all sources for the years ended June 30, 2020 and 2019, respectively. Operating grants and contributions presented an increase of $2,531.9 million when compared with fiscal year 2019. This change was mainly due to increases in unemployment federal grants received during the year 2020, as restated, specifically from three new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC). Charges for services, consisting mainly of insurance premiums, presented a decrease of $953 thousand when compared with fiscal year 2019, as restated, representing a slight decrease of .43%; accordingly, such charge remained in line with those of the fiscal year 2019.

During the fiscal year ended June 30, 2020, the **Department** earned net investment income amounting to $18.2 million from different financial institutions, from which $163.4 thousand are considered unrestricted. Interest income derived from the Unemployment Insurance Program amounted to $16.2 million representing 88.92% 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, 2020:



During the year 2020, the **Department** incurred expenses for the business-type activities amounting to $3,316.5 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 increased by $3,240.2 million when compared with prior year expenses, resulting in an increase of 4249.51%. This change was directly related to the increase in the unemployment federal grants received during the year 2020 from three new unemployment insurance programs created by the CARES Act.

Moreover, during fiscal year 2020, expenses from business-type activities exceeded revenues by $560.75 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 $7.4 million. This was offset by other financing sources, mainly net transfers of funds amounting to $44.1 million from the enterprise funds for operational purposes. This year the excess of expenditures over revenues decreased by $4.8 million, or 39.66% when compared with prior fiscal year.

As of the end of the fiscal year 2020, the **Department's** governmental funds reported a combined ending fund balance amounting to $221.8 million.

The general fund is the main operating fund of the **Department**. At the end of the current fiscal year, the fund balance of the general fund was $232.3 thousand. The fund balance of the **Department's** general fund increased $522.3 thousand from a deficit of $289.9 thousand, reaching the balance of $232.3 thousand.

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, decreased by $586.7 million. This is mainly due to the increase in the operating expenses of 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 $93 million at the end of current year.
- Total operating expenses of the enterprise funds exceeded total operating revenues for a net operating loss of $3,094 million.
- Total benefits paid by the enterprise funds to eligible citizens during the year ended June 30, 2020 amounted to $3,309.9 million.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

Agency Fund

At June 30, 2020, the **Department's** agency fund has cash available of $19.7 million to pay for unsettled claims between employers and employees. It represents an increase of approximately $5.6 million in the agency fund when compared to the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Funds' final budget for the fiscal year ended June 30, 2020 was $5.9 million and the actual expenditures were $5.6 million. The total budget availability exceeded the total expenditures by $233 thousand for the fiscal year.

The following table summarizes the budget and actual expenditures in budgetary basis for fiscal years ended June 30, 2020 and 2019, in thousands:

	2020 Original Budget	2019 Original Budget	Original Budget Change	2020 Final Budget	2019 Final Budget	Final Budget Change	Original & Final Budget Change Between 2020 & 2019	2020 Actual Amounts in Budgetary Basis	2019 Actual Amounts in Budgetary Basis	Actual Amounts Change
Revenues	$30,936	$8,454	$22,482	$5,867	$7,036	$(1,169)	$(23,651)	$5,867	$ 7,036	$ (1,169)
Expenditures	30,936	8,454	22,482	5,867	7,036	(1,169)	(23,651)	5,634	7,036	(1,402)
Unexpended (Over-expended Balance)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$233	$ -	$233

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, 2020 amounted to a net book value of $6.1 million. Actual depreciation expense for the year amounted to $389 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, 2020 and 2019, in thousands:

ANALYSIS OF THE DEPARTMENT'S FUNDS (CONTINUED)

	2020	2019	Change
Governmental Activities:			
Buildings	$ 5,212	$ 5,463	$ (251)
Furniture and equipment	684	778	(94)
Vehicles	203	124	79
	6,099	6,365	(266)
Business-type Activities:			
Buildings	3	6	(3)
Furniture and equipment	2	6	(4)
Vehicles	-	-	-
	5	12	(7)
Total capital assets	**$ 6,104**	**$ 6,377**	**$ (273)**

Long-term Debt

The **Department's** long-term liabilities increased by approximately $5 million when compared to fiscal year 2019, or .94%. The following table summarizes the long-term debt for both governmental and business-type activities for the fiscal years ended June 30, 2020 and 2019, in thousands:

	2020	2019	Change
Governmental Activities:			
Compensated absences	$ 8,418	$ 7,373	$ 1,045
Christmas bonus	632	673	(41)
Voluntary termination benefits	5,271	6,042	(771)
Total other postemployment benefits	17,476	17,956	(480)
Total pension liability	456,656	452,011	4,645
	488,453	484,055	4,398
Business-type Activities:			
Compensated absences	760	586	174
Total other postemployment benefits	1,840	1,891	(51)
Total pension liability	48,094	47,605	489
	50,694	50,082	612
Total	**$539,147**	**$534,137**	**$5,010**

ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75

New Significant Accounting Standards Implemented: In Fiscal Year 2020, the **Department** adopted the Statement No. 73, *"Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision issued by the Governmental Accounting Standards"* and the Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, that replaces GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*, after fiscal year 2018, for other Postemployment benefits liability reporting. Both financial statements present the governmental activities of the **Department** The government-wide and fund financial statements can be found immediately following this discussion and analysis. The **Department's** pension plan is administered by the Employees Retirement System Administration (ESR).

Deferred Outflows of Resources

Deferred outflows of resources, although similar to "assets," is set apart because these items do not meet the technical definition of being an asset of the **Department** on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement 68, and amendments to certain provisions of GASB Statement Nos. 67 and 68, and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for total pension liability and total OPEB liability reporting. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the **Department** as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the **Department's** deferred outflows of resources and deferred inflows of resources is presented in **Notes 12** and **13** to the basic financial statements.

ECONOMIC FACTORS

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 **Department** expects that this matter should have an impact in its oncoming operating results, cause by a reduction in the operating grants and 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. Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC).

Pandemic Unemployment Assistance (PUA), which provided unemployment benefits for workers not otherwise eligible for regular unemployment benefits, self-employed individuals, contract workers, and business owners. Individuals who qualify for PUA must self-certify weekly that they are unemployed, partially employed, or unable or unavailable to work because of a COVID-19 related reason.

Pandemic Emergency Unemployment Compensation (PEUC), which provided an additional 13 weeks of unemployment benefits for unemployed workers who have exhausted regular unemployment benefits.

Federal Pandemic Unemployment Compensation (FPUC), which provided an additional $600 per week to all unemployed workers receiving traditional unemployment compensation, PUA, or PEUC. To qualify to receive the FPUC payment, a claimant had to be eligible to receive at least $1 of compensation through the traditional unemployment insurance, PEUC, or PUA program for that week.

NEXT YEAR'S BUDGET

The **Department's** budget for the fiscal year 2021, adopted on July 2020, amounts to approximately $446.5 million. The legislative appropriations amount to $372.3.3 million for the fiscal year 2021.

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.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Net Position (Deficit)
June 30, 2020

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents in commercial banks	$ 147,019,356	$ 7,767	$ 147,027,123
Cash held by PR Secretary of Treasury	89,194,626	23,448,234	112,642,860
Accounts receivable:			
Insurance premiums, net	-	5,232,683	5,232,683
Accrued investment interest	-	168,475	168,475
Due from federal government	7,345,131	533,348,450	540,693,581
Other receivables	10,147	126,054	136,201
Inventories	-	146,102	146,102
Prepaid expenses	188,933	90	189,023
Internal balances	1,988,639	(1,988,639)	-
Restricted assets:			
Cash and cash equivalents in commercial banks	335,212	11,244,306	11,579,518
Cash held by US Secretary of Treasury	-	616,997,366	616,997,366
Insurance premiums, net	-	56,943,157	56,943,157
Accrued insurance penalties, charges and interest	-	85,614	85,614
Investments	-	29,829,914	29,829,914
Capital assets, net of accumulated depreciation	6,098,965	5,412	6,104,377
Total assets	252,181,009	1,275,594,985	1,527,775,994
Deferred outflows of resources:			
OPEB related	1,396,846	147,115	1,543,961
Pension related	39,317,359	4,140,844	43,458,203
Total deferred outflows of resources	40,714,205	4,287,959	45,002,164

(Continued)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Statement of Net Position (Deficit) (Continued)
June 30, 2020

	Governmental Activities	Business-type Activities	Total
Liabilities:			
Accounts payable and accrued liabilities	18,581,581	531,618,933	550,200,514
Unearned revenue	-	15,666,323	15,666,323
Due to other governmental entities	5,741,989	-	5,741,989
Insurance benefits payable	-	585,711,352	585,711,352
Liabilities payable within one year:			
Compensated absences	4,832,267	634,862	5,467,129
Christmas bonus	632,476	-	632,476
Voluntary termination benefits	1,179,493	-	1,179,493
Total other postemployment benefit liability	1,396,846	147,114	1,543,960
Total pension liability	24,488,616	2,579,103	27,067,719
Liabilities payable after one year:			
Compensated absences	3,585,867	124,630	3,710,497
Voluntary termination benefits	4,091,299	-	4,091,299
Total other postemployment benefit liability	16,078,696	1,693,383	17,772,079
Total pension liabiliy	432,167,073	45,515,178	477,682,251
Total liabilities	512,776,203	1,183,690,878	1,696,467,081
Deferred inflows of resources:			
Pension related	30,587,354	3,221,413	33,808,767
Net position (deficit):			
Investment in capital assets	6,098,965	5,412	6,104,377
Restricted for payment of insurance benefits	-	116,997,990	116,997,990
Unrestricted (deficit)	(256,567,308)	(24,032,749)	(280,600,057)
Total net position (deficit)	$ (250,468,343)	$ 92,970,653	$ (157,497,690)

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 Fiscal Year Ended June 30, 2020

		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	$ 32,709,283	$ -	$ 63,086,808	$ 30,377,525	$ -	$ 30,377,525
Disaster unemployment assistant	3,448,395	-	1,312,987	(2,135,408)	-	(2,135,408)
Employment regulations	10,741,734	-	13,410,814	2,669,080	-	2,669,080
Employment services	7,347,752	-	5,985,627	(1,362,125)	-	(1,362,125)
Occupational safety and health	6,429,143	-	6,275,758	(153,385)	-	(153,385)
Rehabilitation services	24,954,917	-	13,784,768	(11,170,149)	-	(11,170,149)
Statistics and monitoring	554,484	-	556,325	1,841	-	1,841
Unemployment services	12,563,340	-	11,797,657	(765,683)	-	(765,683)
Work incentive	16,599,051	-	78,293	(16,520,758)	-	(16,520,758)
Total governmental activities	115,348,099	-	116,289,037	940,938	-	940,938
Business-type activities:						
Unemployment Insurance	3,306,939,330	200,633,570	2,532,358,893	-	(573,946,867)	(573,946,867)
Disability Insurance	5,293,245	17,562,274	-	-	12,269,029	12,269,029
Driver's Insurance	3,882,616	4,247,951	-	-	365,335	365,335
Vocational Rehabilitation Administration	356,110	57,068	856,798	-	557,756	557,756
Total business-type activities	3,316,471,301	222,500,863	2,533,215,691	-	(560,754,747)	(560,754,747)
Total	$ 3,431,819,400	$ 222,500,863	$ 2,649,504,728	940,938	(560,754,747)	(559,813,809)
General Revenues and Transfers:						
Unrestricted investment earnings				$ 643,312	$ 18,212,114	$ 18,855,426
Transfers				44,138,356	(44,138,356)	-
Total general revenues and transfers				44,781,668	(25,926,242)	18,855,426
Changes in net position				45,722,606	(586,680,989)	(540,958,383)
Net position:						
As beginning of the year, as previously reported				(183,430,968)	786,175,614	602,744,646
Prior period adjustments				(112,759,981)	(106,523,972)	(219,283,953)
Net position (deficit) - beginning of year - As restated				(296,190,949)	679,651,642	383,460,693
Net position (deficit) - end of year				$ (250,468,343)	$ 92,970,653	$ (157,497,690)

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
Balance Sheet – Governmental Funds
June 30, 2020

	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	$ -	$ 136,682,971	$ 7,826	$ -	$ 10,328,559	$ 147,019,356
Cash held by Secretary of Treasury	233,016	67,664,755	-	-	21,296,855	89,194,626
Due from:						
Federal Government	-	-	3,715,136	3,629,995	-	7,345,131
Other funds	-	1,575,971	412,668	-	-	1,988,639
Other receivables	-	1,836	-	8,311	-	10,147
Prepaid expenses	-	-	188,933	-	-	188,933
Restricted assets:						
Cash and cash equivalents in commercial banks	-	-	-	335,212	-	335,212
Total assets	233,016	205,925,533	4,324,563	3,973,518	31,625,414	246,082,044
Liabilities, deferred inflows of resources, and fund balances (deficit):						
Liabilities:						
Accounts payable	683	2,022,247	4,308,426	3,961,724	8,288,501	18,581,581
Due to other governmental entities	-	4,686,364	-	11,794	1,043,831	5,741,989
Total liabilities	683	6,708,611	4,308,426	3,973,518	9,332,332	24,323,570
Fund balances:						
Assigned	-	-	16,137	-	22,293,082	22,309,219
Committed	-	199,216,922	-	-	-	199,216,922
Unassigned	232,333	-	-	-	-	232,333
Total fund balances (deficit)	232,333	199,216,922	16,137	-	22,293,082	221,758,474
Total liabilities, deferred inflows of resources, and fund balances (deficit)	$ 233,016	$ 205,925,533	$ 4,324,563	$ 3,973,518	$ 31,625,414	$ 246,082,044

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

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position (Deficit)

June 30, 2020

Total fund balance per balance sheet - governmental funds		$ 221,758,474
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 outflows of resources reported in governmental activities but not in governmental funds		
Other postemployment benefit obligation	1,396,846	
Pension related	39,317,359	40,714,205
Capital assets used in governmental activities are not financial resources and therefore not recognized in the balance sheet - governmental funds:		
Depreciable capital assets	$ 25,352,398	
Accumulated depreciation	(19,253,433)	6,098,965
Deferred inflows of resources reported in governmental activities but not in governmental funds		
Pension related		(30,587,354)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Compensated absences	(8,418,134)	
Termination benefits	(5,270,792)	
Christmas bonus	(632,476)	
Other postemployment benefit obligation	(17,475,542)	
Total pension liability	(456,655,689)	(488,452,633)
Total net position (deficit) of governmental activities		$ (250,468,343)

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 – Governmental Funds
For The Fiscal Year Ended June 30, 2020

	General Fund	Work Opportunity Incentive Fund	Vocational Rehabilitation Administration	Federal Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Legislative appropriations	$ 5,866,705	$ -	$ 13,354,918	$ -	$ 14,254,330	$ 33,475,953
Intergovernmental federal grants	-	-	43,682,375	27,225,301	-	70,907,676
Donations from other governmental entities	-	-	-	-	14,657,347	14,657,347
Interest	-	643,312	-	-	-	643,312
Other	-	-	14,567	-	528,944	543,511
Total revenues	5,866,705	643,312	57,051,860	27,225,301	29,440,621	120,227,799
Expenditures:						
General and administrative	5,344,431	-	32,090,809	1,679,977	5,677,227	44,792,444
Disaster unemployment assistant	-	-	-	3,415,990	-	3,415,990
Employment regulations	-	-	-	-	10,640,793	10,640,793
Employment services	-	-	-	5,797,731	1,480,974	7,278,705
Occupational safety and health	-	-	-	2,431,624	3,937,104	6,368,728
Rehabilitation services	-	-	24,720,415	-	-	24,720,415
Statistics and monitoring	-	-	-	549,273	-	549,273
Unemployment services	-	-	-	12,445,282	-	12,445,282
Work incentive	-	16,302,238	-	140,831	-	16,443,069
Capital outlays	-	2,143	-	26,170	907,499	935,812
Total expenditures	5,344,431	16,304,381	56,811,224	26,486,878	22,643,597	127,590,511
Excess (deficiency) of revenues over (under) expenditures	522,274	(15,661,069)	240,636	738,423	6,797,024	(7,362,712)
Other financing sources (uses)						
Transfers in	-	40,599,356	-	-	8,668,579	49,267,935
Transfers out	-	(4,391,156)	-	(738,423)	-	(5,129,579)
Total other financing sources (uses)	-	36,208,200	-	(738,423)	8,668,579	44,138,356
Net change in fund balances (deficit)	522,274	20,547,131	240,636	-	15,465,603	36,775,644
Fund balances (deficit) - beginning of year, as restated	(289,941)	178,669,791	(224,499)	-	6,827,479	184,982,830
Fund balances at end of year	$ 232,333	$ 199,216,922	$ 16,137	$ -	$ 22,293,082	$ 221,758,474

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
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For The Fiscal Year Ended June 30, 2020

Net change in fund deficit - governmental funds		$ 36,775,644
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:		
Some revenues in the statement of activities do not provide current financial resources, and, therefore, are deferred in governmental funds. Also, revenue related to prior periods that became available during the current period is reported in governmental funds but are eliminated in the statement of activities. This amount is the net adjustment.		(4,115,207)
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	935,811	
Depreciation expense	(381,712)	554,099
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not recorded as expenditures in governmental funds. Those activities consist of:		
Increase in compensated absences	(1,045,364)	
Decrease in christmas bonus	41,038	
Decrease in termination benefits	770,808	
Pension related	12,312,840	
Other postemployment benefit obligation	428,748	12,508,070
Change in net position of governmental activities		$ 45,722,606

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
June 30, 2020

	Business-type activities				
	Unemployment Insurance Fund	Disability Insurance Fund	Drivers' Insurance Fund	Vocational Rehabilitation Administration	Total Enterprise Funds
Assets:					
Current assets:					
Cash and cash equivalents in commercial banks	$ -	$ -	$ -	$ 7,767	$ 7,767
Cash held by PR Secretary of Treasury	1,473,351	20,879,454	1,095,429	-	23,448,234
Receivables, net					
Due from federal government	533,348,450	-	-	-	533,348,450
Insurance premiums	56,943,157	4,276,880	955,803	-	62,175,840
Accrued insurance penalties, charges and interest	-	85,614	-	-	85,614
Accrued investment interest	-	168,475	-	-	168,475
Other	45,015	60,795	-	20,244	126,054
Inventories	-	-	-	146,102	146,102
Prepaid expenses	-	-	-	90	90
Restricted assets:					
Cash held by US Treasury Department-restricted	616,997,366	-	-	-	616,997,366
Cash and cash equivalents in commercial banks	-	1,810,615	9,433,691	-	11,244,306
Total current assets	1,208,807,339	27,281,833	11,484,923	174,203	1,247,748,298
Noncurrent assets:					
Restricted investments	-	29,829,914	-	-	29,829,914
Capital assets, net of accumulated depreciation	-	-	-	5,412	5,412
Total assets	1,208,807,339	57,111,747	11,484,923	179,615	1,277,583,624
Deferred outflows of resources:					
OPEB related	-	100,212	46,903	-	147,115
Pension related	-	2,820,680	1,320,164	-	4,140,844
Total deferred outflows of resources	-	2,920,892	1,367,067	-	4,287,959
Liabilities:					
Current liabilities:					
Accounts payable	531,198,949	221,492	159,337	39,155	531,618,933
Due to other funds	1,575,971	-	-	412,668	1,988,639
Insurance benefits payable	585,250,151	377,331	83,870	-	585,711,352
Unearned revenue	14,397,297	1,246,179	22,847	-	15,666,323
Compensated absences	-	528,670	83,087	23,105	634,862
Total other postemployment benefit liability	-	100,212	46,902	-	147,114
Total pension liability	-	1,756,846	822,257	-	2,579,103
Total current liabilities	1,132,422,368	4,230,730	1,218,300	474,928	1,138,346,326
Noncurrent liabilities:					
Compensated absences	-	-	124,630	-	124,630
Total other postemployment benefit liability	-	1,153,507	539,876	-	1,693,383
Total pension liabiliy	-	31,004,250	14,510,928	-	45,515,178
Total liabilities	1,132,422,368	36,388,487	16,393,734	474,928	1,185,679,517
Deferred inflows of resources:					
Pension related	-	2,194,378	1,027,035	-	3,221,413
Net position:					
Invested in capital assets	-	-	-	5,412	5,412
Restricted for payment of insurance benefits	76,384,971	31,263,198	9,349,821	-	116,997,990
Deficit	-	(9,813,424)	(13,918,600)	(300,725)	(24,032,749)
Total net position	$ 76,384,971	$ 21,449,774	$ (4,568,779)	$ (295,313)	$ 92,970,653

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 Fund Net Position – Enterprise Funds
For The Fiscal Year Ended June 30, 2020

	Business-type activities - Enterprise Funds				
	Unemployment Insurance Fund	Disability Insurance Fund	Drivers' Insurance Fund	Vocational Rehabilitation Administration	Total Enterprise Funds
Operating revenues:					
Insurance premiums	$ 200,633,570	$ 17,562,274	$ 4,247,951	$ -	$ 222,443,795
Net sales	-	-	-	57,068	57,068
Total operating revenue	200,633,570	17,562,274	4,247,951	57,068	222,500,863
Cost of sales					
Material, direct labor, indirect cost	-	-	-	235,279	235,279
Total cost of sales	-	-	-	235,279	235,279
Excess of costs over sales	-	-	-	(178,211)	(178,211)
Operating expenses:					
Insurance benefits	3,306,939,330	1,125,995	1,792,346	-	3,309,857,671
General and administrative expenses	-	4,167,250	2,090,270	120,831	6,378,351
Total operating expenses	3,306,939,330	5,293,245	3,882,616	120,831	3,316,236,022
Operating income (loss)	(3,106,305,760)	12,269,029	365,335	(299,042)	(3,093,970,438)
Non-operating revenues (expenses):					
Contributions from federal government	2,532,358,893	-	-	-	2,532,358,893
Interest and investment earnings	16,194,660	1,854,091	163,363	-	18,212,114
Other	875,763	-	-	(18,965)	856,798
Total non-operating revenues	2,549,429,316	1,854,091	163,363	(18,965)	2,551,427,805
Income (loss) before transfers	(556,876,444)	14,123,120	528,698	(318,007)	(542,542,633)
Transfers from other funds	745,570	-	-	-	745,570
Transfers to other funds	(44,883,926)	-	-	-	(44,883,926)
Net change in net position	(601,014,800)	14,123,120	528,698	(318,007)	(586,680,989)
Net position - beginning of year	677,399,771	87,183,106	21,570,043	22,694	786,175,614
Prior period adjustments	-	(79,856,452)	(26,667,520)	-	(106,523,972)
Net position - beginning of year, as restated	677,399,771	7,326,654	(5,097,477)	22,694	679,651,642
Net position - end of year	$ 76,384,971	$ 21,449,774	$ (4,568,779)	$ (295,313)	$ 92,970,653

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 Fiscal Year Ended June 30, 2020

	Unemployment Insurance Fund	Disability Insurance Fund	Driver's Insurance Fund	Vocational Rehabilitation Administration	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from insurance taxes	$ 183,003,152	$ 16,217,698	$ 4,206,737	$ -	$ 203,427,587
Payments from customers	-	-	-	106,743	106,743
Contributions from appropriations central government	-	-	-	68,346	68,346
Payments to suppliers	(104,976)	(1,241,902)	(478,907)	(399,347)	(2,225,132)
Advances from (to) other funds	-	-	-	208,542	208,542
Payments to employees	-	(4,501,362)	(2,083,393)	-	(6,584,755)
Payments for insurance benefits	(2,227,226,391)	(1,179,971)	(1,821,999)	-	(2,230,228,361)
Net cash provided by (used in) operating activities	(2,044,328,215)	9,294,463	(177,562)	(15,716)	(2,035,227,030)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Contributions from federal government	1,999,886,206	-	-	-	1,999,886,206
Transfers from (to) other funds	(44,138,356)	-	4,303,924	-	(39,834,432)
Net cash provided by financing activities	1,955,747,850	-	4,303,924	-	1,960,051,774
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on deposits, investments and loans	16,194,660	1,854,091	163,363	-	18,212,114
Proceeds from sales and maturities of investments	-	20,195,012	-	-	20,195,012
Purchase of investments	-	(21,978,649)	-	-	(21,978,649)
Net cash provided by investing activities	16,194,660	70,454	163,363	-	16,428,477
Net change in cash and cash equivalents	(72,385,705)	9,364,917	4,289,725	(15,716)	(58,746,779)
Cash and cash equivalents - Beginning of year	690,856,422	13,325,152	6,239,395	23,483	710,444,452
Cash and cash equivalents - End of year	$ 618,470,717	$ 22,690,069	$ 10,529,120	$ 7,767	$ 651,697,673
Reconciliation of operating income (loss) to Net cash provided by operating activities:					
Operating income (loss)	(3,106,305,760)	12,269,029	365,335	(299,042)	(3,093,970,438)
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities:					
Depreciation expense	-	-	-	7,104	7,104
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	(10,013,337)	(1,027,398)	(47,101)	49,675	(11,038,161)
Decrease (increase) in inventories	-	-	-	34,533	34,533
Increase (Decrease) in deferred outflow of resources	-	(1,069,311)	(500,471)	-	(1,569,782)
Increase (decrease) accounts payable and accrued liabilities	531,198,949	(764,381)	(105,321)	(1,111)	530,328,136
Increase (decrease) in due to other funds	(104,976)	-	-	189,177	84,201
Increase (decrease) in unearned revenues	(7,617,081)	(317,178)	5,887	-	(7,928,372)
Increase (decrease) in due to other governmental entities	-	(815)	(4,790)	-	(5,605)
Increase (decrease) in compensated absences	-	103,281	(58,722)	3,948	48,507
Decrease (Increase) in voluntary termination benefits	-	-	124,630	-	124,630
Increase (decrease) in insurance benefits payable	548,513,990	(53,976)	(29,653)	-	548,430,361
Decrease (Increase) in other postemployment benefits	-	(34,497)	(16,146)	-	(50,643)
Decrease (Increase) in total pension liability	-	333,251	155,972	-	489,223
Decrease (Increase) in deferred inflow of resources	-	(143,542)	(67,182)	-	(210,724)
Total adjustments	1,061,977,545	(2,974,566)	(542,897)	283,326	1,058,743,408
Net cash provided by (used in) operating activities	$ (2,044,328,215)	$ 9,294,463	$ (177,562)	$ (15,716)	$ (2,035,227,030)

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 - Agency Funds

June 30, 2020

Assets:	
Cash and cash equivalent in commercial banks	$19,706,087
Total Assets	$19,706,087
Liabilities:	
Accounts payable	$19,706,087
Total Liabilities	$19,706,087

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, 2020, 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, the agency fund and the aggregate remaining fund information of the **Department**, as of June 30, 2020, 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, 2020, and the cash flows of the proprietary fund for the fiscal year ended June 30, 2020 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)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

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, 2020, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental Funds Financial Statements (Continued)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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:

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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).

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Compensated Absences (Continued)

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).

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

P. Accounting for Pension Costs

As further disclosed in **Note 13**, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

Act No. 106-2017 impacts the benefits provided to ERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not become ERS members.
- Effective July 1, 2017, current ERS members will no longer make any contributions to ERS. Prospectively, active members will participate in a separate defined contribution plan.

In addition, Act No. 106-2017 provides that ERS will be funded on a "Pay-As-You-Go" basis. This funding change resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, for employer financial accounting purpose. The following contributions are eliminated by Act No. 106-2017:

- Act No. 116-2011 employer contributions – was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25 of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Accounting for Pension Costs (Continued)

- Act No. 32-2013 Additional Uniform Contribution.

- Act No. 3-2013 Supplemental Contributions – was $2,000 for each pensioner who was previously benefitting as an Act No, 447-1951 and Act No. 1-1990 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to $1,200 per member), the Christmas Bonus ($200 per member), and Medication Bonus ($100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

As ERS is a multiple employer plan and the benefits are no longer funded by a pension trust, GASB No. 73 applies to the pension benefits provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers, like Municipality, also participate in ERS.

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

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017.

In addition to the pension benefits described in **Note 1 P**., the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and Municipality funds (see **Note 13**).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balances and Net Position

The fund balance classifications are as follows:

Nonspendable:	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:

- **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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Balances and Net Position (Continued)

- **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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Inter-fund and Intra-entity Transactions (Continued)

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.

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. 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 $1.3 million for the fiscal year ended June 30, 2020. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Future Adoption of Accounting Pronouncements

The provisions of the following Governmental Accounting Standards Board (GASB) Statement are effective immediately:

- **GASB No. 95, 'Postponement of the Effective Dates of Certain Authoritative Guidance',** the `primary 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 effective dates of certain provisions contained in the following pronouncements are postponed by one year:

  - Statement No. 83, Certain Asset Retirement Obligations
  - Statement No. 84, Fiduciary Activities
  - Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
  - Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
  - Statement No. 90, Majority Equity Interests
  - Statement No. 91, Conduit Debt Obligations
  - Statement No. 92, Omnibus 2020
  - Statement No. 93, Replacement of Interbank Offered Rates
  - Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan reporting)
  - Implementation Guide No. 2018-1, Implementation Guidance Update—2018
  - Implementation Guide No. 2019-1, Implementation Guidance Update—2019
  - Implementation guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Future Adoption of Accounting Pronouncements – Postponed One Year

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2018. The PRDH is currently evaluating its accounting practices to determine the potential impact on the financial statements for the GASB Statements. As per GASB Statement No. 95 the effective dates of certain provisions contained in the following pronouncements are postponed by one year.

- **GASB No. 84, '*Fiduciary Activities*'**, is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

- **GASB No. 89, '*Accounting for Interest Cost Incurred Before the end of a Construction*'**, is to (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.

- **GASB No. 90, '*Majority Equity Interest—An Amendment of GASB Statements No. 14 and No. 61*'**, 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.

- **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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Future Adoption of Accounting Pronouncements – Postponed One Year (Continued)

- **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.

  - 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).

Z. Future Adoption of Accounting Pronouncements – Postponed Eighteen Months

- **GASB Statement No. 87, 'Leases'**. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. Future Adoption of Accounting Pronouncements – Postponed Eighteen Months (Continued)

- **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.

- **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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. Future Adoption of Accounting Pronouncements – Postponed Eighteen Months (Continued)

- **GASB Statement No 98, The Annual Comprehensive Financial Report.** This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

- **GASB Statement No 99, Omnibus 2022.** This Statement establishes the objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

- **GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

- **GASB Statement No. 101, Compensated Absences.** The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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 amounts of deposits of the **Department** at June 30, 2020 consists of the following:

	Carrying Amount			
	Unrestricted	Restricted	Total	Depository Bank Balance
Commercial banks	$ 147,027,123	$ 11,579,518	$ 158,606,641	$ 495,817,400
PR Secretary of Treasury	112,642,860	-	112,642,860	112,642,860
US Secretary of Treasury	-	616,997,366	616,997,366	616,997,366
Total	$ 259,669,983	$ 628,576,884	$ 888,246,867	$ 1,225,457,626

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 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.

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.

NOTE 3 - RESTRICTED INVESTMENTS (CONTINUED)

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.

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, 2020, 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, 2020 consist of the following:

	Rating							
Investment type	AAA	AA+ to AA-	A+ to A-	BBB	BB+ to BB-	B+ to B-	Not Rated	Total
Mortgage and asset-backed securities:								
FNMA	$ 3,023,077	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,023,077
FHLMC	851,472	-	-	-	-	-	-	851,472
Commercial mortgages	175,987	-	-	-	-	-	309,831	485,818
Asset-backed securities	170,699	-	-	-	-	-	320,124	490,823
U.S. corporate bonds and notes	-	-	-	-	-	-	290,252	290,252
U.S. corporate bonds and notes	312,443	1,158,439	2,824,922	4,708,568	611,596	456,563	-	10,072,531
Foreign government bonds and notes	-	-	-	334,366	381,067	149,250	-	864,683
U.S. municipal notes	608,748	102,142	2,709	-	-	-	113,586	827,185
Total debt securities	$ 5,142,426	$ 1,260,581	$ 2,827,631	$ 5,042,934	$ 992,663	$ 605,813	$ 1,033,793	$ 16,905,841

NOTE 3 - RESTRICTED INVESTMENTS (CONTINUED)

	Maturity (in years)			
	After one year	After one to five years	After five to ten years	Total
U.S. government securities	$ 1,043,159	$ 294,175	$ 1,890,994	$ 3,228,328
Mortgage and asset-backed securities:				
GNMA	-	-	1,100,915	1,100,915
FNMA	102,527	-	2,920,550	3,023,077
FHLMC	832	54,381	796,259	851,472
Commercial mortgages	-	-	485,818	485,818
Asset-backed securities	490,823	-	-	490,823
Other	-	-	290,252	290,252
U.S. corporate bonds and notes	3,412,938	4,665,094	1,994,499	10,072,531
Foreign government bonds and notes	334,317	530,366	-	864,683
U.S. municipal notes	26,563	-	800,622	827,185
Total debt securities	$ 5,411,159	$ 5,544,016	$ 10,279,909	21,235,084
Equity securities:				
MFC Vangurad Emerging MKTS ETF				16,240
MFC Vangurad Developed MKTS ETF				2,812,004
MFC ISHARES TR Russell 2000 ETF				1,421,491
MFC SPDR S&P 500 ETF Trust				4,204,797
MFC VANGUARD Index Funds S&P 500 ETF				140,298
Total				$ 29,829,914

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.

NOTE 3 - RESTRICTED INVESTMENTS (CONTINUED)

	Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. government securities	$ -	$ 3,228,328	$ -	$ 3,228,328
Mortgage and asset-backed securities:				
GNMA	-	1,100,915	-	1,100,915
FNMA	-	3,023,077	-	3,023,077
FHLMC	-	851,472	-	851,472
Commercial mortgages	-	485,818	-	485,818
Asset-backed securities	-	490,823	-	490,823
Other	-	290,252	-	290,252
U.S. corporate bonds and notes	-	10,072,531	-	10,072,531
Foreign government bonds and notes	-	864,683	-	864,683
U.S. municipal notes	-	827,185	-	827,185
Total investments measured at fair value	$ -	$ 21,235,084	$ -	21,235,084
Equity securities:				
MFC VANGUARD Index Funds S&P 500 ETF				8,594,830
Total investments				$ 29,829,914

The **Department's** carry it's 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** Statement of Net Position include intergovernmental receivables from the federal government of $540.7 million. At June 30, 2020, amounts due from the US Department of Labor (USDOL) and US Department of Education (USDE) $537 million and $3.7 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 Statement of Net Position for governmental activities include approximately $16.2 million of trade accounts due to suppliers for purchase of merchandise received and services rendered at June 30, 2020. Also, excess of checks drawn over the PR Treasury cash balance amounted to approximately $2.3 million, are reported within accounts payable and accrued liabilities of the governmental activities and the governmental funds.

Payables in the business-type activities for business activities include approximately $420 thousand of trade accounts due to suppliers for purchase of merchandise and services rendered. Also, excess of checks drawn over bank balance amounted to approximately $531.2 million, are reported within accounts payable and accrued liabilities of the governmental activities and the governmental funds, and $86.8 thousands of accrued Christmas bonus at June 30, 2020.

Benefits payable in the enterprise fund include approximately $585.7 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, 2020 consist of:

Receivable by Fund	Payable by Fund	Amount
Work Opportunity Incentive	Unemployment Insurance	$1,575,971
Vocational Rehabilitation Administration Funds	Vocational Rehabilitation Administration - Business-Type Fund	412,668
Total		$1,988,639

This space was intentionally left in blank.

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

Transfers from (to) other funds for the year ended June 30, 2020 are as follows:

Transferor Fund	Transferee Fund	Amount
Federal Funds	Other Governmental Funds	$ 738,423
Unemployment Insurance	Other Governmental Funds	4,284,569
Work Opportunity Incentive	Other Governmental Funds	3,645,586
		8,668,578
Unemployment Insurance	Work Opportunity Incentive	$40,599,356
Work Opportunity Incentive	Unemployment Insurance	745,570
Total		$50,013,504

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 for the payment of work incentives and administrative expenses amounting to $40.6 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 other governmental entities by the **Department** at June 30, 2020, in the amount of $5.7 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, 2020 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 $1,249.9 million.

Liabilities payable from restricted assets of the **Department** amount to approximately $1,132.9 million included in the basic financial statements as of June 30, 2020, which includes $585.7 of unemployment and disability insurance benefits payable in the business-type activities and.

Restricted net position of the **Department** included in the basic financial statements as of June 30, 2020 consists of net position for payment of unemployment and disability insurance benefits amounting to approximately $117 million.

NOTE 8 - CAPITAL ASSETS

Capital assets activity of the **Department** for the fiscal year ended June 30, 2020 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	275,297	116,054	-	391,351
Total capital assets, being depreciated	25,236,344	116,054	-	25,352,398
Less accumulated depreciation for:				
Buildings	2,072,127	251,167	-	2,323,294
Furniture and equipment	16,648,407	93,840	-	16,742,247
Vehicles	151,187	36,705	-	187,892
Total accumulated depreciation	18,871,721	381,712	-	19,253,433
Governmental activities capital assets, net	$ 6,364,623	$ (265,658)	$ -	$ 6,098,965

	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	443,523	3,487	-	447,010
Furniture and equipment	335,014	3,620	-	338,634
Computer, equipment and software	108,318	-	-	108,318
Vehicles	213,224	-	-	213,224
Total accumulated depreciation	1,100,079	7,107	-	1,107,186
Business-type activities capital assets, net	$ 12,519	$ (7,107)	$ -	$ 5,412
Grand total	$ 6,377,142	$ (272,765)	$ -	$ 6,104,377

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charge to the functions/programs of the **Department** for the year ended June 30, 2020 as follows:

Governmental activities:	
General and administrative	$ 9,629
Employment regulations	12,902
Employment services	5,199
Unemployment services	11,001
Work incentive	251,167
Occupational safety and health	3,377
General and Administrative VRA	88,437
Total depreciation expense -governmental activities	$381,712

Also, depreciation expense amounting to $7,107 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, 2020.

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, 2020 amounted to $15,666,323, and are presented in the following business-type funds as follows:

Business-type activities:	
Unemployment Insurance	$14,397,297
Disability Insurance	1,246,179
Drivers Insurance	22,847
Total Unearned Revenues	$15,666,323

NOTE 10 - LONG-TERM LIABILITIES

Long-term liabilities activity of the **Department** for the fiscal year ended June 30, 2020 was as follows:

	Beginning Balance	Increase (Decreases)	Ending Balance	Due within one year	Due after one year
Governmental activities:					
Compensated absences	$7,372,770	$1,045,364	$8,418,134	$4,832,267	$3,585,867
Christmas bonus	673,514	(41,038)	632,476	632,476	-
Voluntary termination benefits	6,041,600	(770,808)	5,270,792	1,179,493	4,091,299
Other postemployment benefit liability	17,956,394	(480,852)	17,475,542	1,396,846	16,078,696
Total pension liability	452,010,509	4,645,180	456,655,689	24,488,616	432,167,073
Total governmental activities	484,054,787	4,397,846	488,452,633	32,529,698	455,922,935
Business-type activities:					
Compensated absences	586,355	173,137	759,492	634,862	124,630
Other postemployment benefit liability	1,891,140	(50,643)	1,840,497	147,114	1,693,383
Total pension liability	47,605,058	489,223	48,094,281	2,579,103	45,515,178
Total Business-type activities:	50,082,553	611,717	50,694,270	3,361,079	47,333,191
Total	$534,137,340	$5,009,563	$539,146,903	$35,890,777	$503,256,126

Compensated Absences

Long-term debt includes approximately $9.2 million of accrued vacation at June 30, 2020. As noted above, the total liability of compensated absences recorded as governmental and business-type activities amounted to approximately $8.4 million and $759 thousand, respectively.

Christmas Bonus

Long-term debt includes approximately $632.5 thousand of accrued Christmas bonus at June 30, 2020 recorded as governmental activities. The accrued Christmas bonus for business-type activities amounted to approximately $86.8 thousand, which was recorded as part of accounts payable and accrued expenses in the enterprise funds' financial statements.

NOTE 11 – VOLUNTARY TERMINATION BENEFITS

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 **Department**. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5%

NOTE 11 – VOLUNTARY TERMINATION BENEFITS (Continued)

to 50 % of each employee' salary, as defined. In this early retirement benefit program, the **Department** will make the employee and 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. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the **Department**.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the **Department's** financial statements of a liability of $5,270,792 in the accompanying statement of net position as of June 30, 2020 and a reduction of $770,808 under general and administrative in the accompanying statement of activities for the year ended June 30, 2020. On June 30, 2020, unpaid long-term benefits granted on this program were discounted at 2.03%.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in **Note 13** the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Healthcare Benefits

The **Department** accounts for OPEB under the provisions of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, that replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, changes similar to those implemented on GASB No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions should be made. This statement has substantially revised the accounting requirements previously mandated under GASB Statements No. 43 and 45. The most notable change is that the Annual Required Contribution (ARC) has been eliminated and the Net OPEB Liability will be an item on the employer's financial statement rather than a footnote entity.

GASB Number 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB No. 75 applies to the OPEB provided to each participating employer's own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share or OPEB expense is determined for these employers.

Funding Policy – the contribution requirement of ERS Medical Insurance Plan (MIP), are established by Act No. 95-1963. Its benefit consists of a maximum of $100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIPC. These benefits are financed on a "Pay-As-You-Go" basis from the General Fund of the Commonwealth of Puerto Rico and municipalities.

Christmas Bonus Benefits

The Christmas Bonus was $200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2018. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2019. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year ending date. This report is for measurement year July 1, 2018 to June 30, 2019 for reporting period ending June 30, 2020.

Significant Changes

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2017 was 97,708 retirees.

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows of resources as changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year. A deferred outflow of resources of $1,543,960 was presented for payments made after June 30, 2020 to the plan.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Total OPEB Liability

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB No. 75.

Total OPEB Liability	**Amount**	**Proportionate Share (2.321%)**
Total OPEB Liability	$832,231,462	$19,316,039

The **Department's** proportionate share of the OPEB Liability used was as follows:

Proportion – June 30, 2020	2.320994%
Proportion – June 30, 2019	2.356761%
Change – Increase (Decrease)	(.035767)%

Discount Rate

The discount rate on June 30, 2019 and 2018, was as follow:

	June 30, 2019	June 30, 2018
Discount Rate	3.50%	3.87%
20 Year Tax-Exempt Municipal Bond Yield	3.50%	3.87%

Sensitivity of the Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the **Department's** proportionate share of the Total OPEB Liability calculated using the discount rate, as well as what the **Department's** proportionate share of the Total OPEB Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease 2.50%	**Current Discount Rate 3.50%**	**1% Increase 4.50%**
Total OPEB Liability	$21,169,400	$19,316,039	$17,739,716

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	Not Applicable
Municipal Bond Index	3.50%, as per Bond Buyer General Obligation 20-Bond Municipal bond Index
Projected Salary Increases	Not Applicable

Mortality

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP- 2020 from the 2006 base year and projected forward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2020 from 2006 base year and projected forward using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. These rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These rates are projected using Mortality Improvement Scales MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

NOTE 13 - RETIREMENT PLAN

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2020.

(1) Description of the Plan and Basis of Presentation

The Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the ERS was administered by the Board of Trustees of the ERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-As-You-Go" ("Pay-Go") system for the payment of pensions. Also pursuant to Act No. 106-2017, the ERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. make any contributions to ERS, and ERS will be funded on a "Pay-As-You-Go" basis.

After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer As a result of the implementation of the "Pay-Go" system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, Accounting and Financial Reporting for Pension, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan.

(2) Pension Benefits

The benefits provided to the ERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

NOTE 13 - RETIREMENT PLAN (Continued)

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)

- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) *Service Retirement Eligibility Requirements*

1) *Eligibility for Act No. 447-1951 Members*: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are eligible to retire at any time.

NOTE 13 - RETIREMENT PLAN (Continued)

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

   Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

3) *Eligibility for System 2000 Members*: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

   System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

NOTE 13 - RETIREMENT PLAN (Continued)

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

4) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(b) Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

   If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

NOTE 13 - RETIREMENT PLAN (Continued)

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013.

For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and

ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

NOTE 13 - RETIREMENT PLAN (Continued)

If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.
For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(d) Special Benefits

1) *Minimum Benefits*

- *Past Ad hoc Increases:* The Legislature, from time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- *Minimum Benefit for Members who Retired before July 1, 2013*: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35- 2007, and Act No. 3-2013)
- *Coordination Plan Minimum Benefit:* A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

2) *Cost-of-Living Adjustments (COLA) to Pension Benefits*

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree’s death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007

NOTE 13 - RETIREMENT PLAN (Continued)

and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act No. 35-2007).

3) *Special "Bonus" Benefits*

- *Christmas Bonus:* An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. *(Act No. 144-2005, as Amended by Act No. 3-2013)*

- *Medication Bonus:* An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. *(Act No. 155-2003, as Amended by Act No. 3-2013)*

(e) Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in ERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside of ERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- Act No. 116-2011 Employer Contributions
- Act No. 32-2013 Additional Uniform Contribution
- Act No. 3-2013 Supplemental Contributions
- Member Contributions

(3) Allocation Methodology

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefits pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ration of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

NOTE 13 - RETIREMENT PLAN (Continued)

The difference between the actual benefits payments' column and the benefits payments for allocation in the schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

(4) Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

After the approval of Act No. 106-2017, the ERS assets are liquidated and GASB No. 73 is now implemented in substitution of GASB No. 68. The **Department's** Total Pension Liability was measured as of June 30, 2020 based on the audited financial information of January 28, 2022 and actuarial valuation as January 25, 2022.

(a) Total Pension Liability

Effective July 1, 2014, the **Department** implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68, which significantly changed the **Department's** accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. The **Department's** Total Pension Liability was measured as of June 30, 2020. The measurement Date is June 30, 2019, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2019 through June 30, 2020. As June 30, 2020, the **Department's** proportional share of the Total Pension Liability was as follows:

Proportion – June 30, 2020	2.03115%
Proportion – June 30, 2019	2.04012%
Change – Increase (Decrease)	-0.00897%

As June 30, 2020, the **Department** reported $504,749,970 as Total Pension Liability for its proportionate shares of the Total Pension Liability of ERS.

(b) Pension Expense

For the year ended June 30, 2020 the Administration recognized pension expense of $15,759,975 of total pensions payments of the "Pay-As-You-Go" system.

(c) Deferred Outflows/Inflow of Resources

As of June 30, 2020, the **Department** reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

NOTE 13 - RETIREMENT PLAN (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$17,112,497
Changes of assumptions	16,390,483	13,049,138
Changes in proportion	-	3,647,132
Benefit payments made after measurement date	27,067,720	-
	$43,458,203	$33,808,767

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2021	$ (4,354,571)
2022	(4,354,571)
2023	(4,354,571)
2024	(4,354,571)
	$(17,418,284)

(d) Actuarial Methods and Assumptions

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate has decreased from 3.87% as of June 30, 2019 to 3.50% as of June 30, 2020. The projected mortality improvement scale was updated from Scale MP-2019 to Scale MP-2020 to reflect the projected mortality improvement scale issued in the valuation year.

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for.

NOTE 13 - RETIREMENT PLAN (Continued)

There are several commonly used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by ERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2020 are based on projecting the System obligations determined as of the census data collection date of July 1, 2019 for one year using roll-forward methods, assuming no liability gains or losses. Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2020 is provided below, including any assumptions that differ from those used in the June 30, 2019 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

NOTE 13 - RETIREMENT PLAN (Continued)

Municipal Bond Rate: 3.50% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.50% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of the Act 3-2017 four-year extension of the Act 66-2014 salary freeze and the current general economy. Based on professional judgement and System input.

Defined Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution Account after June 30, 2017. Based on the liquidation of Systems assets and move to "Pay-As-You-Go" funding under Act 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for demographic assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with ERS staff for reasonableness and are documented in this Section.

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality improvement Scale MP-2020 from the 2006 base year and projected forward using MP-2020 on a generational basis. For members covered under Act No. 127-1958, RP-2014 Employee Mortality Rates with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scales MP-2020 from the 2006 base year and projected forward using MP-2020 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

NOTE 13 - RETIREMENT PLAN (Continued)

Post-retirement Health Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scales AA. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. These base rates are projected using Mortality Improvement Scales MP-2020 on a generational. As generational tables, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For members retiring after June 30, 2013 under Act No. 127-1958, a Joint & 100% Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016 but was not provided as of July 1, 2017 for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed (as shown in the following table), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No, 211-1958 and those not married were assumed to have a modified cash refund (as shown in the following table). The spouse’s date of birth was imputed based on an assumed age difference of 4 years with males older than females.

NOTE 13 - RETIREMENT PLAN (Continued)

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by ERS. For further information regarding such pension legislation, **(**see **Note 1 P.).** The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index. The discount rate as of June 30, 2019 and 2018, was as follows:

	June 30, 2019	**June 30, 2018**
Discount Rate	3.50%	3.87%
20 Year Tax-Exempt Municipal Bond Yield	3.50%	3.87%

Changes in Total Pension Liability

Change in Total Pension Liability	**Total Pension Liability**	**Proportionate Share**
Beginning Balance	$24,489,519,237	$497,419,165
Change for the year:		
Service Cost	65,433,707	1,329,058
Interest on Total Pension Liability	924,869,040	18,785,489
Effect of Economic/Demographic (Gains) of Loses	(312,438,756)	(6,346,104)
Effect of Assumptions Changes or Inputs	1,008,694,161	20,488,104
Benefit Payments	(1,325,639,411)	(26,925,742)
Ending Balance	$24,850,437,978	$504,749,970

(e) Sensitivity of the Department Proportionate Share of the Total Pension Liability to Changes in the Discount Rate

The following presents the **Department's** proportionate share of the Total Pension Liability calculated using the discount rate, as well as what the **Department's** proportionate share of the Total Pension Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1% Decrease 2.50%	**Current Discount Rate 3.50%**	**1% Increase 4.50%**
Total Pension Liability	$573,980,779	$504,749,970	$448,505,944

NOTE 13 - RETIREMENT PLAN (Continued)

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA on April 23, 2021. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% in the aggregate to beneficiaries of more to $1,500 of monthly benefits:

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2018 valuation. Also, note that the Fiscal Plan anticipates that ERS will be funded on a “Pay-As-You-Go” basis.

“Pay-As-You-Go” Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “Pay-As-You-Go” (“Pay-Go”) mechanism for the ERS.

Subsequently, 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. 106-2017), which reformed the Commonwealth Retirement Systems. Act No. 106-2017 terminated the previously existing pension programs for the ERS’s participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106-2017 also established by law the “Pay-Go” mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous contributions. Approximately $2 billion was allocated for the payment of “Pay-Go” benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the ERS’s governance. Under Act No. 106-2017, the ERS’ Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth’s Retirement Systems.

NOTE 13 - RETIREMENT PLAN (Continued)

Act No. 106-2017 also ordered a suspension of the ERS's loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the ERS's existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the ERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, ERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The "Pay-Go" funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to ERS are primarily based on statutory percentage of payroll.
- Disbursements are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction. A major issue that needs to be addressed by ERS and the Commonwealth is determining what the process of ERS budgeting for "Pay-Go" funding will be. While the ERS can set an expected "Pay-Go" amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the ERS be permitted to develop a budget request of a "Pay-Go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes
- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico issue publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

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, 2020, rent expenditures of the **Department** amounted to approximately $4.7 million under such operating leases.

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

Year ending June 30,	Amount
2021	$ 572,630
2022	360,394
2023	99,430
2024	15,958
2025	15,958
2026-2030	2,397,473
2031-2035	2,400,473
2036-2040	2,400,773
2041-2042	269,217
Total	$8,532,306

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.

NOTE 15 - CONTINGENCIES (Continued)

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.

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.

Under the CARES Act, an overpayment occurs and must be established when the **Department** determines that an individual received a payment, or a portion of a payment, to which they were not entitled. The Department may consider a waiver of the recovery of an overpayment of the **Department** determines that the payment of such compensation was without fault on the part of any such individual and that such repayment would be contrary to equity and good conscience. Recovery would be contrary to equity and good conscience when at least one of three circumstances exists: (1) recovery would cause financial hardship to the person from whom it is sought; (2) the recipient of the overpayment can show (regardless of their financial situation) that due to the notice that such payment would be made or because of the incorrect payment, either they have relinquished a valuable right or changed positions for the worse; or (3) recovery would be unconscionable under the circumstances. Under no circumstances may a state waive recovery activities for a fraudulent overpayment.

When an overpayment does not meet the criteria for recovery to be waived or the **Department** does not exercise the authority to waive certain overpayments, the state must require the individual to repay the overpayment. In that regard, the **Department** must complete the same recovery activities for the CARES Act UC programs as required for the regular UC program: benefit offsets (including cross-program offsets under the Cross Program Offset Recovery Agreement (CPORA) and interstate reciprocal offsets under the Interstate Reciprocal Offset Recovery Arrangement (IRORA)) and participation in the Treasury Offset Program (TOP) for collecting specific types of overpayments.

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is an economic stimulus bill passed by the 116th U.S. Congress and signed into law on March 27, 2020, in response to the economic fallout of the COVID disease. The spending primarily includes one-time cash payments to individual people who submit a tax return in America (with most single adults receiving $1,200 and families with children receiving more, increased unemployment benefits, and the creation of the Paycheck Protection Program.

Three significant new unemployment insurance programs were created via the CARES Act: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC).

Pandemic Unemployment Assistance (PUA)

The PUA provided unemployment benefits for workers not otherwise eligible for regular unemployment benefits, self-employed individuals, contract workers, and business owners. Individuals who qualify for PUA must self-certify weekly that they are unemployed, partially employed, or unable or unavailable to work because of a COVID-19 related reason. Individuals were required to self-certify that they were unemployed, partially employed, unable to work, or unavailable for work due to the effects of COVID-19. Benefits were calculated based on previous earnings with a formula from the Disaster Unemployment Assistance program under the Stafford Act.

PUA Eligibility

The individuals were required to provide self-certification that they were able to work and available for work. Other eligibility criteria included being unemployed, partially employed, unable to work, or unavailable for work due to one of the following COVID-19-related situations:

- The individual was diagnosed with or showed symptoms and were trying to get diagnosed with COVID-19.
- A member of the individual's household was diagnosed with COVID-19.
- The individual provided care for someone diagnosed with COVID-19.
- The individual provided care for a child or other household member who couldn't attend school or go to a care facility because of a COVID-19 closure.
- The individual was quarantined or advised by a healthcare provider to self-quarantine.
- The individual was scheduled to start a job and no longer had or couldn't reach it due to COVID-19.
- The individual became the primary earner for a household because the head of the household died as a direct result of COVID-19.
- The individual quit a job as a direct result of COVID-19.
- The individual's place of employment closed as a direct result of COVID-19.
- The individual met other criteria set forth by the U.S. labor secretary.

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (Continued)

Benefit amounts were calculated based on previous earnings, using a formula from the Disaster Unemployment Assistance program under the Robert T. Stafford Disaster Relief and Emergency Assistance Act

Pandemic Emergency Unemployment Compensation (PEUC)

The Pandemic Emergency Unemployment Compensation (PEUC) was an emergency program designed to allow people who had exhausted their unemployment compensation benefits to receive up to 13 additional weeks of benefits, provided they were "able to work, available to work, and actively seeking work."

Benefits under the PEUC program were due to expire on December 31, 2020 but were extended to March 14, 2021, and the number of weeks that an individual could claim PEUC benefits was increased from 13 to 24 by the Consolidated Appropriations Act (CAA), 2021. The American Rescue Plan Act of 2021 further extended the PEUC 29 weeks for up to 53 weeks through September 6, 2021.

States were required to offer flexibility to applicants in meeting PEUC eligibility requirements related to "actively seeking work" if an applicant's ability to find work was affected by COVID-19.

Federal Pandemic Unemployment Compensation (FPUC)

The FPUC is an emergency program established by the CARES Act to increase unemployment benefits for Americans who are out of work because of the COVID-19 pandemic. The FPUC provided an additional $600 per week to all unemployed workers receiving traditional unemployment compensation, PUA, or PEUC. To qualify to receive the FPUC payment, a claimant had to be eligible to receive at least $1 of compensation through the traditional unemployment insurance, PEUC, or PUA program for that week. Under the Consolidated Appropriations Act and the American Rescue Plan Act (ARPA), the FPUC was extended at a reduced rate, allowing unemployed individuals to receive an additional $300 per week.

All pandemic-related federal unemployment benefits expired on September 6, 2021.

On May 15, 2020, the Governor of Puerto Rico issued the Executive Order No. 2020-040 to approve and adopt the Strategic Disbursement Plan for the Coronavirus Relief Fund (the "CRF Disbursement Plan"), developing a plan for the use of the funds allocated to the Government of Puerto Rico through the Coronavirus Relief Fund ("CRP') established under the Coronavirus Aid, Relief, and Economic Security Act, Public Law 116-136 ('CARES Act")

NOTE 16 – THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (Continued)

As part of the measures within the CRF Disbursement Plan, an Allocation to the Trust Fund of the Unemployment Fund of the Department of Labor and Human Resources was established in order to support and provide liquidity to the Unemployment Insurance Fund Trust of the Department of Labor and Human Resources to cover disbursements to people who have applied for state unemployment benefits due to the emergency of COVID-19. The funds can only be used to finance the state portion of unemployment benefits related to COVID-19. These funds should not be used to increase the current level of benefits. These funds may not be used for expenses that have been of will be reimbursed by other federal programs, including through other provisions of the CARES Act. This Transfer Program represents an initial investment of $150 million from the CRF.

NOTE 17 - ACCOUNTING CHANGES AND CORRECTION OF ERRORS

During 2020, the Department identified various errors related to prior year basic financial statements with impact in the beginning net position/fund balance are as follows:

Governmental and Business-type Activities

The following table summarizes the changes to net position at the beginning of the year as previously reported for the Governmental and Business-type activities in the government-wide financial statements:

	Governmental Activities	Business-type Activities
Net position (deficit) - July 1, 2019, as previously reported	$(183,430,968)	$786,175,614
Understatement (overstatement) of cash and cash equivalents	341,944,766	(56,313,814)
Overstatement of liabilities	22,041,221	-
Understatement of deferred outflows of resources:		
Other postemployment benefits related	1,448,950	152,601
Pension related	24,360,165	2,565,576
Understatement of total pension liability	(452,010,509)	(47,605,058)
Understatement of other postemployment benefit liability	(17,956,394)	(1,891,140)
Understatement of deferred inflows of resources:		
Pension related	(32,588,180)	(3,432,137)
Net position (deficit) - July 1, 2019, as restated	$(296,190,949)	$679,651,642

NOTE 17 - ACCOUNTING CHANGES AND CORRECTION OF ERRORS (CONTINUED)

Governmental Funds

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported for the governmental funds:

	Work Opportunity Incentive Fund	Other funds
Deficit - July 1, 2019, as previously reported	$(126,223,510)	$(52,265,207)
Understatement of cash and cash equivalents	290,363,730	51,581,037
Overstatement of liabilities	14,529,571	7,511,649
Fund balances - July 1, 2019, as restated	$ 178,669,791	$ 6,827,479

Proprietary Funds

The following table summarizes the changes to fund balances (deficit) at the beginning of the year as previously reported for the governmental funds:

	Disability insurance fund	Drivers' insurance fund
Net position - July 1, 2019, as previously reported	$ 87,183,106	$21,570,043
Overstatement of cash and cash equivalents	(45,654,052)	(10,659,762)
Other postemployment benefits related	103,950	48,652
Pension related	1,747,631	817,944
Understatement of total pension liability	(32,427,845)	(15,177,213)
Understatement of other postemployment benefit liability	(1,288,216)	(602,924)
Understatement of deferred outflows of resources		
Pension related	(2,337,920)	(1,094,217)
Net position (deficit) - July 1, 2019, as restated	$ 7,326,654	$(5,097,477)

NOTE 18 - GOING CONCERN CONSIDERATION

The financial statements have been prepared on a going concern basis, which assumes the **Department** will be able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future. The **Department's** Statement of Net Position reflects an unrestricted deficit and a net deficit of approximately $268.3 million and $144.1 million, respectively as of June 30, 2020. Additionally, it's Statement of Activities a negative change in net position of $527.5 million for the year ended June 30, 2020. Notwithstanding, the **Department** has evaluated it's budgetary constraints and liquidity risks and has concluded that, as of June 30, 2020, the **Department** will continue to operate as a going concern for a period not less than twelve months after such date.

NOTE 19 – SUBSEQUENT EVENTS

The **Department** has evaluated events and transactions for potential recognition or disclosures through August 12, 2022, 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 described in the following paragraphs.

Worldwide pandemic of Coronavirus (COVID-19)

On March 15, 2020, the Government of Puerto Rico lockdown must of government and private business operations in Puerto Rico in order to avoid the spreading of the COVID-19 infection among the people in Puerto Rico. This situation will have an economic impact over the Department, as exceptions and dates for filing taxes were waived for more than 3 months. The economic damages to the Department finances could not been estimated at this time. On March 19, 2020, the OMB issued the memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, which provided administrative remedies for entities impacted by COVID-19. Among other remedies, provides for awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 – Audit Requirements, to six (6) months beyond the normal due date, not applicable to this financial statements.

On December 21, 2020 the Governor of Puerto Rico issued the Resolution No. 2020-040 to authorize an additional allocation of $150 million to support and provide liquidity to the Unemployment Insurance Fund Trust of the Department of Labor and Human Resources to cover disbursements to people who have applied for state unemployment benefits due to the emergency of COVID-19. These funds can only be used to finance the state portion of unemployment benefits related to COVID-19 and may not be used for expenses that have been or will be reimbursed by other federal programs, including through other provisions of the CARES Act.

Joint Circular Letter 2022-01

On January 27, 2022, the Commonwealth of Puerto Rico issued Joint Circular Letter 2022-01 related to Obligations of the Government Entities under the confirmation order of the Adjustment Plan of the Commonwealth of Puerto Rico and the Ordered Transfers by the U.S. District Court for Puerto Rico. Such Circular Letter notified the Court approval of the fiscal plan and the amounts to be transferred by each governmental agency under Title III Joint Plan. As a result of this decision, on February 2022 the Department paid $185,000,000.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

Budgetary Comparison Schedule - General Fund

For The Fiscal Year Ended June 30, 2020

	Original Budget	**Final Budget**	**Actual Amount in Budgetary Basis**	**Variance**
Revenues:				
Legislative appropriations	$30,936,000	$5,866,705	$5,866,705	$ -
Total revenues	30,936,000	5,866,705	5,866,705	-
Expenditures:				
General and administrative	30,936,000	5,866,705	5,633,689	233,016
Total expenditures	30,936,000	5,866,705	233,016	233,016
Excess Revenues Over Expenditures	**$ -**	**$ -**	**$ 233,016**	**$ 233,016**

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, 2020 was $30.9 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.

This space was intentionally left in blank.

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, 2020 is presented below:

Excess of Revenues Over Charges to Appropriations from the Budgetary Comparison Schedule - General Fund	$233,016
Timing Differences:	
Adjustment for encumbrances	638
Current year expenditures against prior year encumbrances	(638)
Excess of Revenues Over Expenditures in the Statement of Revenues, Expenses and Changes in Net Position – Governmental Funds	$233,016

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Required Supplementary Information
Schedule of Proportionate Share of Other Postemployment Benefits
For The Fiscal Year Ended June 30, 2020

	2020	2019
Proportionate Share of the Collective Total OPEB Liability	2.03115%	2.04120%
Proportion of the Collective Total OPEB Liability	$ 19,316,039	$ 19,847,534

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

** Covered payroll is no longer applicable since contributions are no longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2019 was the first year that the new requirements of GASB Statement No. 75 were implemented by the Department. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES

Required Supplementary Information
Schedule of Proportionate Share of Total Pension Liability
For The Fiscal Year Ended June 30, 2020

	2020	2019
Proportionate Share of the Collective Total Pension Liability	2.03115%	2.04012%
Proportion of the Collective Total Pension Liability	$ 504,749,970	$ 499,615,567

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

** Covered payroll is no longer applicable since contributions are no longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2019 was the first year that PRDH transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the "Pay-Go" implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the Department and not Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

2. The data provided in the schedules is based as of the measurement date of the total pension and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

3. On August 23, 2017, was enacted the Act No. 106, known as the “Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees”. This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "Pay-As-You-Go" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the "Pay-Go" Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

END OF NOTES

SINGLE AUDIT SECTION

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures			
			From Pass-Through to Subrecipients	From Pass-Through Awards	From Direct Awards	Total Expenditures
US Department of Agriculture						
Passed-through PR Department of Education						
National School Lunch Program	10.555	018	$ -	$ 34,647	$ -	$ 34,647
Subtotal US Department of Agriculture			-	34,647	-	34,647
US Department of Housing and Urban Development						
Passed-through PR Department of Housing and Urban Development						
Public and Indian Housing	14.850	N/AV	-	43,622	-	43,622
Subtotal US Department of Housing and Urban Development			-	43,622	-	43,622
US Department of Labor						
Direct Programs:						
Labor Force Statistics	17.002	N/A	-	-	490,799	490,799
Compensation and Working Conditions	17.005	N/A	-	-	58,475	58,475
Unemployment Insurance	17.225	N/A	-	-	550,643,938	550,643,938
COVID-19 Unemployment Insurance	17.225	N/A	-	-	2,773,311,532	2,773,311,532
Senior Community Service Employment Program	17.235	N/A	-	-	889,085	889,085
Work Opportunity Tax Credit Program (WOTC)	17.271	N/A	-	-	127,229	127,229
Temporary Labor Certification for Foreign Workers	17.273	N/A	-	-	15,660	15,660
Occupational Safety and Health State Program	17.503	N/A	-	-	2,431,624	2,431,624
Consultation Agreements	17.504	N/A	-	-	520,014	520,014
Subtotal Direct Programs			-	-	3,328,488,356	3,328,488,356

(Continued)

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF LABOR AND HUMAN RESOURCES
Schedule of Expenditures of Federal Awards (Continued)
For The Fiscal Year Ended June 30, 2020

Employment Services Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207	N/A	-	-	4,221,761	4,221,761
Disabled Veterans' Outreach Program (DVOP)	17.801	N/A	-	-	179,074	179,074
Total Employment Services Cluster			-	-	4,400,835	4,400,835
Subtotal US Department of Labor			-	-	3,332,889,191	3,332,889,191
US Department of Homeland Security						
Passed-through US Department of Labor						
Disaster Unemployment Assistance	97.034	N/AV	-	458,748	-	458,748
Subtotal Homeland Security			-	458,748	-	458,748
Total Expenditures of Federal Awards			$ -	$ 537,017	$ 3,332,889,191	$ 3,333,426,208

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	$3,305,627,272
Federal UC benefits	2,924,348
Federal UC administrative costs	15,403,850
Total Benefits	**$3,323,955,470**

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.

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	$	127,590,511
Expenses reported in the Statement of Revenues, Expenditures and Changes in Net Position - Enterprise Funds		3,316,236,022
Total		3,443,826,533
Less Expenses reported in:		
General Fund		(5,344,431)
Work Opportunity Incentive Fund		(16,304,381)
Vocational Rehabilitation Administration		(56,932,055)
Indirect Costs Allocation		(22,643,597)
Disability Insurance		(5,293,245)
Drivers' Insurance		(3,882,616)
		(110,400,325)
Amount reported in the Schedule of Expenditures of Federal Awards	$	3,333,426,208

NOTE 8 - LATE ISSUANCE OF SINGLE AUDIT REPORTING PACKAGE

As described in finding **2020-010** in Section III of the Schedule of Findings and Questioned Costs, the **Department** was unable submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2020 during the required period. The main reason for the delay was the Coronavirus Pandemic, known as COVID-19, which forced a worldwide outbreak causing, a government and business disruption through mandated and voluntary closings of multiple companies and governmental entities on the island. As further explained in **Notes 16** and **19** to the financial statements, the Pandemic delayed the operations of the government and the audit procedures. The **Department** developed a plan to continue providing its services to the community and comply with the federal grants' requirements.

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

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

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

To the 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, Each Major Fund, the Aggregate Remaining Fund Information and the Agency Fund of the **Department of Labor and Human Resources (the Department)** as of and for the year ended June 30, 2020, and the related notes to the financial statements. We were engaged to audit the financial statements of the Business-Type Activities and the Unemployment Insurance Fund. These financial statements collectively comprise the **Department's** financial statements. We have issued our report thereon dated August 12, 2022. We have issued unmodified opinions for all opinion units, except for the Governmental Activities which were qualified because management has not recorded certain general capital assets and, accordingly, has not recorded depreciation expense on those assets. Also, the Vocational Rehabilitation Administration (a component unit) 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, we were not able to express an opinion on the Business-Type Activities and the Unemployment Insurance Fund. As of the date of our report, we were unable to obtain complete and accurate information associated with the determination of overpayments for the CARES Act Unemployment Insurance (UI) Program. The Department's records did not permit us, nor was it practical to extend other auditing procedures to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances and other related activity in the Business-Type Activities and the Unemployment Compensation Fund were free of material misstatement. As a result, we did not express opinions on these opinion units.

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.

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 **2020-001, 2020-002, 2020-003, 2020-004** and **2020-005** 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 do not noted any significant deficiency.

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 **2020-001, 2020-002, 2020-003, 2020-004, 2020-005 and 2020-006**.

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
August 12, 2022

Stamp No. E486860 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

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

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

To the 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, 2020. 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 $44,282,395 in federal awards, which are not included in the **Department's** Schedule of Expenditures of Federal Awards for the year ended June 30, 2020. 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, 2020 and have issued our report dated March 29, 2021 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.

Basis for Adverse Opinion on Unemployment Insurance Program

As described in the accompanying Schedule of Findings and Questioned Costs, the **Department** did not comply with requirements of CFDA 17.225 Unemployment Insurance Program for Reporting finding **2020-007**, Eligibility finding **2020-008** and Special Test and Provisions finding **2020-009**. Compliance with such requirements is necessary, in our opinion, for the **Department** to comply with the requirements applicable to that program.

Adverse Opinion on Unemployment Insurance Program

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Unemployment Insurance Program" paragraph, the **Department** did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance Program for the year ended June 30, 2020.

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 item **2020-010**.

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.

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

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2020-007, 2020-008** and **2020-009** 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 item **2020-010** to be a significant deficiency.

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
August 12, 2022

Stamp No. E486861 of the Puerto Rico
Society of Certified Public Accountants
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	Disclaimer
General Fund	Unmodified
Work Opportunity Incentive Fund	Unmodified
Vocational Rehabilitation Administration Fund	Unmodified
Enterprise - Unemployment Insurance Fund	Disclaimer
Enterprise - Disability Insurance Fund	Unmodified
Enterprise - Drivers' Insurance Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified
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:	Adverse	
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
17.225	COVID-19 Unemployment Insurance

Dollar threshold used to distinguish between Type A and Type B programs	**$10,000,279**

Auditee qualified as low-risk auditee? ☐Yes ☒No

Section II - Financial Statements Findings

Finding No. 2020-001

Requirement: Accounting System

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

This finding is similar to prior-year finding 2019-001

Statement of Condition

During the audit of the **Department's** basic financial statements for the fiscal year ended June 30, 2020, 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 2020 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.

6. 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.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-001 (Continued)

7. The balances of the bank accounts held by the Treasury Department of the Commonwealth of Puerto Rico recorded in the governmental funds and proprietary funds were not reconciled with PRIFAS system. Also, there are no established procedures for the reconciliation of these accounts on a monthly basis. These accounts were reconciled after the end of the fiscal year, resulting in significant adjustments for the restatement of the beginning balance of fund balances accounts in the governmental funds by $341,944,767 to correct an understatement of cash balances, and the beginning balance of net position of proprietary funds by $56,313,814 to correct an overstatement of cash balances.

8. The balances of accounts payable recorded in the governmental funds were not reconciled. Also, there are no established procedures for the reconciliation of these accounts on a monthly basis. These accounts were reconciled after the end of the fiscal year, resulting in significant adjustments for the restatement of the beginning balance of fund balances accounts in the governmental funds by $22,041,220 to correct an overstatement of accounts payable balances.

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.

   Please refer to findings **2019-002**, **2019-003**, **2019-004** and **2019-005**, for deficiencies in unemployment benefits payments, 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.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-001 (Continued)

Criteria (Continued)

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.

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,

Section II - Financial Statements Findings (Continued)

Finding No. 2020-001 (Continued)

Effect of Condition (Continued)

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
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 **Department's** Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding Reference 2020-002

Requirement: Controls Over Unemployment Benefit Payments

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

New finding

Statement of Condition

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into Law. The CARES Act was designed to mitigate the economic effects of the COVID-19 pandemic in a variety of ways, including providing additional Unemployment Insurance (UI) provisions.

The Title II, Subtitle A of the CARES Act, authorizes the following temporary UI programs:

1. Federal Pandemic Unemployment Compensation (FPUC) – The FPUC program provides eligible individuals with $600 per week in addition to the weekly benefit amount they receive from certain other Unemployment Compensation programs.

2. Pandemic Emergency Unemployment Compensation (PEUC) – The PEUC program provides up to thirteen (13) weeks of benefits to individuals who have exhausted all rights to regular compensation under State law or Federal law with respect to a benefit year that ended on or after July 1, 2019, have no rights to regular compensation with respect to a week under any other State or Federal Unemployment Compensation law, are not receiving compensation with respect to such week under the Unemployment Compensation law of Canada, and are able to work, available to work, and actively seeking work.

3. Pandemic Unemployment Assistance (PUA) – The PUA program provides up to 39 weeks of benefits to those individuals who are not eligible for regular Unemployment Compensation or extended benefits under State or Federal law or PEUC, including those who have exhausted all rights to such benefits.

These three (3) programs accounted for over $2.7 billion being paid in unemployment benefits for unemployment claims filed for weeks ending from January 27, 2020 to June 30, 2020.

During the audit, we noted that the internal controls established by the **Department** over the processing of unemployment insurance claims are ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. The Department's system used to process unemployment insurance claims is outdated and do not provide the tool to promptly identify and prevent fraudulent claims.

Section II - Financial Statements Findings (Continued)

Finding Reference 2020-002

Statement of Condition (Continued)

Also, Controls over claims processing were weakened through the suspension of the first week waiting period, a simplified application implement to streamline and expedite processing and the inability to apply the normal wage verification procedures to claims for self-employed individuals and independent contractors.

In order to respond to the increase in fraudulent claims, the **Department** engaged and develop a new system call “FAST PUA” for the processing unemployment insurance of claims. This system was available from the month of August 2020. However, whether the investment to implement the new unemployment insurance processing system is viable to addressing fraud risk, remains unclear.

Criteria

Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

Cause of Condition

The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing claims. The rapid implementation of the new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to identify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustain and targeted efforts impacting many states throughout the United States.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-002 (Continued)

Effect of Condition

Fraudulent insurance claims have been paid and the unemployment insurance processing system require further enhancements to timely identify fraudulent benefit claims prior to disbursement. These enhancement shall be develop to ensuring the compliance with the federal program, including the prevention and detection of fraudulent benefit payments.

Recommendation

We recommend management the following:

1. Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the unemployment insurance program claims processing system, as well as those newly implemented processing functionalities established within the new developed "FAST PUA" system.

2. Develop and implement a strategic plan to address the required modernization of the unemployment claims processing system.

Questioned Costs

None.

Auditee Response

See **Department's** Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-003

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

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

This finding is similar to prior-year finding **2019-003**

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. Insurance Premiums - Unemployment Insurance Fund
   b. Insurance Premiums - Drivers' Insurance Fund
   c. Insurance Premiums – Disability 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 Disability Insurance, Drivers 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.

4. The accounts receivable related to fraudulent unemployment insurance claims paid during the fiscal year cannot be determined and recorded at the end of the fiscal year.

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. 2020-003 (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 **Department's** Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-004

Requirement: Financial Reporting: Capital Assets

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

This finding is similar to prior-year finding **2019-004**

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. 2020-004 (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 **Department's** Corrective Action Plan.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-005

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 **2019-005**

Statement of Condition

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

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. **Department's** management made an analysis of the account and proposed an adjustment to correct the account balance in order to exclude unidentified credits and inactive employers.

Benefits Payable - Proprietary Funds

1. The subsidiaries of benefits payable are not maintained for Unemployment 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 the experience of benefits paid.

2. The accounts payable to the federal government related to fraudulent unemployment insurance claims paid during the fiscal year cannot be determined and recorded at the end of the fiscal year.

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.

Section II - Financial Statements Findings (Continued)

Finding No. 2020-005 (Continued)

Cause of Condition

Procedures for the determination of outstanding benefits claim payable at the end of the month has not been implemented. Also, there is a 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

The management is not able to produce a subsidiary ledger to determine the balance of outstanding benefits claims payable at the end of the month.

Recommendation

We recommend the following:

1. The Finance Department should maintain a subsidiary of unpaid benefits 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.

Questioned Costs

None.

Auditee Response

See **Department's** Corrective Action Plan.

Section III - Major Federal Award Program Findings and Questioned Costs

Finding No. 2020-006

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 **2019-007**

Statement of Condition

As discussed in Findings **2020-001, 2020-002, 2020-003, 2020-004, 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 **2020-001, 2020-002, 2020-003, 2020-4, 2020-005**

Cause of Condition

Refer to findings **2020-001, 2020-002, 2020-003, 2020-4, 2020-005**

Effect of Condition

Refer to findings **2020-001, 2020-002, 2020-003, 2020-4, 2020-005**

Recommendation

Refer to findings **2020-001, 2020-002, 2020-003, 2020-4, 2020-005**

Questioned Costs

None.

Auditee Response

See **Department's** Corrective Action Plan.

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

Finding No. 2020-007

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	17.225 Unemployment Insurance 17.225 COVID-19 Unemployment Insurance Programs
Compliance Requirement:	Reporting
Type of Finding:	Material Weakness in Internal Control (MW). Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2019-008**

Statement of Condition

The results of the procedures performed in the financial and performance reporting requirements showed the following instances of noncompliance:

Unemployment Insurance (UI) Program:

(1) ETA 581 for the period ended 6/30/2020 was submitted 14 days after due date.
(2) ETA 191 for the periods ended 3/31/2020 and 6/30/2020 was submitted 10 and 16 days after due date respectively.
(3) ETA 227 for the periods ended 3/31/2020 and 6/30/2020 was submitted 39 and 19 days after due date respectively.
(4) ETA UI3 of 12/31/2019 was submitted 14 days after due date.
(5) ETA 2112 for the periods ended 3/31/2020, 5/31/2020 and 6/30/2020 were submitted 72, 82, and 52 days after due date respectively.

Pandemic Unemployment Assistance (PUA) Program:

(1) ETA 902P PUA for periods ended 4/30/2020, 5/31/2020, and 6/30/2020 were submitted 243, 112, and 182 days after due date respectively. These reports are prepared and submitted by the same employee; therefore these reports are not reviewed by another independent employee or supervisor prior to issuance.
(2) ETA 538 and ETA 539 are presented and transmitted to the ETA based on the information provided by an external source (Evertec), which cannot be compare to determine its completeness and accuracy. Supervisors do not review the information presented on these reports to ensure accuracy and completeness prior to issuance.
(3) ETA 9178-P progress report was not submitted to the ETA for the quarter ending on June 30, 2020.

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

Finding No. 2020-007 (Continued)

Pandemic Unemployment Assistance (PUA) Program (Continued):

(4) ETA 207 for period ended 6/30/2020 was submitted 184 days after due date.
(5) ETA 5130 for period ended 6/30/2020 was submitted 127 days after due date.
(6) ETA 227 (PEUC) for period ended 6/30/2020 was submitted 83 days after due date. The report presents inconsistencies and information that belongs to other programs
(7) ETA 218 for period ended 6/30/2020 was submitted 174 days after due date.
(8) ETA 5159 presented balances that are not consistent with the PEUC claims and payment program activity during the period ending on 6/30/2020.

Additionally, other condition identified on the reports mentioned above and the ETA 539 is that these reports are presented and transmitted to the ETA based on the information provided by an external source (Evertec), which cannot be compare to determine its completeness and accuracy. Supervisors do not review the information presented on these reports to ensure accuracy and completeness prior to issuance.

(9) ETA UI3 for period ended 6/30/2020 was submitted 55 days after due date. Lines 9, 11, 13, and 15 (Third Tier Programs) of section B of the report presents information provided by an external source (Evertec), which does not present supporting documents to compare and determine its completeness and accuracy. Line 13 of the report does not agree with the PEUC program activity presented on ETA 207. Supervisors do not review the information presented on these reports to ensure accuracy and completeness prior to issuance.
(10) ETA 9178-P progress report was not submitted to the ETA for the quarter ending on June 30, 2020.

Federal Pandemic Unemployment Compensation (FPUC) Program:

(1) ETA UI3 for the period ended 6/30/2020 was submitted 55 days after due date.
(2) ETA 227 (FPUC) for the period ended 6/30/2020 was submitted 82 days after due date. The report was submitted without presenting information because the overpayments programming of FPUC was established on the SABEN platform on October 7, 2020.
(3) ETA 5159 for the period ended 6/30/2020 we were unable to identify whether supplemental benefits were not included on this report.

Additionally, other condition identified on the reports mentioned above is that these reports are presented and transmitted to the ETA based on the information provided by an external source (Evertec), which cannot be compare to determine its completeness and accuracy. Supervisors do not review the information presented on these reports to ensure accuracy and completeness prior to issuance.

(4) ETA 9178-P progress report was not submitted to the ETA for the quarter ending on June 30, 2020.

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

Finding No. 2020-007 (Continued)

Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA):

(1) ETA 8403 for periods ended 5/30/2020 and 6/30/2020 were submitted 532 and 41 days after due date with errors amended subsequently.
(2) ETA 2112 for the period ended 4/30/2020 was submitted 71 days after due date. This report is prepared and submitted by the same employee; therefore this report was not reviewed by another independent employee or supervisor prior to issuance.

Criteria

For the submission of these reports the ETA Handbook 401 5th edition is established with the purpose of presenting the 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, shows how to report through the UI electronic entry system. Reports must be sent in time to arrive in the National Office by the due date.

Further reporting and submission instructions are included on UIPL No. 13-20 Change 1; Attachment I to UIPL No. 15-20; UIPL No. 15-20 Change 1; Attachment I to UIPL No. 15-20 Change 2; Attachment I and IV to UIPL No. 16-20; Attachment III and IV to UIPL No. 16-20 Change 1; Attachment I to UIPL No. 17-20; and UIPL No. 17-20 Change 1 for the CARES Act programs established due to the COVID-19 pandemic.

Based on 2 CFR 200.328 and 200 CFR 200.329 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 are no established procedures for monitoring and reviewing reports before they are submitted to the Federal Government. Due to the high volume of work, the creation of new reports for the programs established due to the COVID-19 pandemic, and the decrease in personnel, there was a lack of follow-up on the 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.

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

Finding No. 2020-007 (Continued)

Recommendation

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

Questioned Costs

None.

Auditee Response

See **Department's** Corrective Action Plan.

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

Finding No. 2020-008

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	17.225 Unemployment Insurance 17.225 COVID-19 Unemployment Insurance
Compliance Requirement:	Eligibility
Type of Finding:	Material Weakness in Internal Control (MW) and Noncompliance (NC)

This finding is similar to prior-year finding **2019-009**

Statement of Condition

During the audit, we noted that the internal controls established by the **Department** over the processing of unemployment insurance claims are ineffective to sufficiently prevent fraudulent unemployment insurance benefit payments. The Department's system used to process unemployment insurance claims is outdated and do not provide the tool to promptly identify and prevent fraudulent claims. (See related financial statement finding **2020-002**).

Also, Controls over claims processing were weakened through the suspension of the first week waiting period, a simplified application implement to streamline and expedite processing and the inability to apply the normal wage verification procedures to claims for self-employed individuals and independent contractors.

In order to respond to the increase in fraudulent claims, the **Department** engaged and develop a new system call "FAST PUA" for the processing unemployment insurance of claims. This system was available from the month of August. However, whether the investment to implement the new unemployment insurance processing system is viable to addressing fraud risk, remains unclear.

Unemployment Insurance (UI) Program:

Based on our test performed to 60 claimants selected on our sample for the Unemployment Insurance (UI) Program paid during the fiscal year ended on June 30, 2020, we noted the following instances of noncompliance:

- 1 of 60 cases, which represents a 2% of the sample, presented that the claimant was not unemployed by involuntary reasons and therefore does not qualify to receive the UC benefits.

- 3 of 60 cases, which represent a 5% of the sample, presented that the calculation of the weekly benefits were not correct and consistent with the program requirements and the auditor's recalculation.

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

Finding No. 2020-008 (Continued)

Unemployment Insurance (UI) Program (Continued):

- 1 of 60 cases, which represents a 2% of the sample, the claimant was not eligible to obtain UI benefits because the person was receiving income.

- 1 of 60 cases, which represent a 2% of the sample, did not comply with the waiting period between the request of benefits not paid (compensated by PRDOL).

- 6 of 60 cases, which represent a 10% of the sample, the claimants exceeded the 26 weeks of benefits limit.

Pandemic Unemployment Assistance (PUA) Program:

Based on our test performed to 120 claimants selected on our sample for the Pandemic Unemployment Assistance (PUA) Program paid during the fiscal year ended on June 30, 2020, we noted the following instances of noncompliance:

- 14 of 120 cases, which represent a 12% of the sample, separation of employment information was not found.

- 115 of 120 cases, which represent a 96% of the sample, the claimant's occupation was not available.

- 120 of 120 cases, which represent a 100% of the sample, the following question was not presented in the initial claim ¿At the time of request of PUA benefits, the participant are looking for part-time employment, or full time employment?

- 120 of 120 cases, which represent a 100% of the sample, the following question was not presented in initial claim ¿Prevented from going to work because have been advised by health care provider to stay in quarantine or social distancing because have tested positive for COVID-19?

- 104 of 120 cases, which represent an 87% of the sample, the employer name was not available.

- 8 of 120 cases, which represent a 7% of the sample, the type of period (Basic or Alternative) and the period covered (quarters) were not available.

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

Finding No. 2020-008 (Continued)

Pandemic Unemployment Assistance (PUA) Program (Continued):

- 116 of 120 cases, which represent a 97% of the sample, salaries of the quarter of higher income were not found.

- 8 of 120 cases, which represent a 7% of the sample, two or more quarters with salaries within basic period, were not available.

- 1 of 120 cases, which represent a 1% of the sample, the reason for the claim was not found.

- 107 of 120 cases, which represents an 89% of the sample, the merchant certification or registry was not available.

- 90 of 120 cases, which represent a 75% of the sample, documents of evidence of income such as receipts, invoices, income tax returns, recent announcements of business were not found and therefore, benefit amounts could not be recomputed.

- 5 of 120 cases, which represent a 4% of the sample, 2018 income tax return was available and automatically the minimum benefit for PUA was granted ($66); however, we could not re-compute the benefit amount because it is necessary to present evidence of 2019 income tax return.

- 1 of 120 cases, which represents 1% of the sample, checkbook was available; however it is not possible to re-compute the benefits, determine the difference and identify the income to be eligible for the benefit because it is required to present the 2019 income tax return.

- 17 of 120 cases, which represent a 14% of the sample, there was a difference in benefit calculation because the benefit granted was less than the corresponding amount.

- 109 of 120 cases, which represent a 91% of the sample, benefits are classified as questioned costs because there is a lack of documentation to prove that applicants are eligible to receive benefit.

- 2 of 120 cases, which represent a 2% of the sample, was found that documents presented on SABEN platform does not correspond to the claimant.

- 2 of 120 cases, which represent a 2% of the sample, was found a difference of $9.00 and $97.00 in benefits overpaid respectively, because due to lack of income tax return documentation it is established that the benefit granted to the claimant is the minimum weekly benefit amount ($66).

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

Finding No. 2020-008 (Continued)

Pandemic Unemployment Assistance (PUA) Program (Continued):

- Eligibility determinations are not reviewed or approved by a supervisor, because this processes are automatic. Therefore, it is determined that they do not comply with the internal control of reviewing and supervising the processes and eligibility determinations of the claimants.

- Benefit calculation are automatically computed in SABEN. These processes are not reviewed or recomputed by supervisor or technician with knowledge in the laws and regulations of the program. Therefore, it is determined that this internal control is not being complied.

- Since not all documents are in SABEN for review and monitoring, the auditor was unable to identify whether benefits were discontinued in time once the eligibility requirements are no longer met by the claimant. Therefore, it is determined a noncompliance on this internal control.

Pandemic Emergency Unemployment Compensation (PEUC) Program:

Based on our test performed to 120 claimants selected on our sample for the Pandemic Emergency Unemployment Compensation (PEUC) Program paid during the fiscal year ended on June 30, 2020, we noted the following instances of noncompliance:

- There is not a verification process established beyond verifying on screen 07 of the SABEN platform ("Payment History" screen) to validate that the claimants has exhausted their 26 weeks of UI benefits prior to receiving PEUC benefits.

- There is not a process established to certify that the beneficiary does not receive benefits under the laws of Canada.

- 8 of 120 cases, which represent a 7% of the sample, the claimant exceed the 13-week limit of receiving PEUC benefits.

- 1 of 120 cases, which represent a 1% of the sample, according to the information on the SABEN platform, the claimant did not received PEUC benefits during the period.

- 12 of 120 cases, which represent a 10% of the sample, presented that the calculation of the weekly benefits were not correct and consistent with the program requirements and the auditor's recalculation.

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

Finding No. 2020-008 (Continued)

Pandemic Emergency Unemployment Compensation (PEUC) Program (Continued):

- 2 of 120 cases, which represent a 2% of the sample, present having received benefits from the program prior to week 4/4/2020, the week in which began the payment of PEUC benefits.
- 1 of 120 cases, which represent a 1% of the sample, $240 weekly benefit was disbursed prior to 7/1/2020, the date on which the maximum weekly benefit increased from $190 to $240 according to the law.
- 1 of 120 cases, which represent a 1% of the sample, two or more quarters with salaries within basic period were not available; only one quarter with salaries was available for examination.

Federal Pandemic Unemployment Compensation (FPUC) Program:

- Refer to Unemployment Insurance (UI) Program instances of noncompliance mentioned above.
- Refer to Pandemic Unemployment Assistance (PUA) Program instances of noncompliance mentioned above.
- Refer to Pandemic Emergency Unemployment Compensation (PEUC) Program instances of noncompliance mentioned above.

Criteria

Management is responsible for establishing and maintaining effective internal controls to process and disburse unemployment insurance benefits consistent with federal program guidelines including appropriate procedures to prevent and detect fraudulent payments.

The Uniform Guidance, 2 CFR 200.303 prescribes requirements for recipients of federal awards to establish and maintain an effective system of internal control over federal awards that provides reasonable assurance that the federal awards are managed in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

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

Finding No. 2020-008 (Continued)

Criteria (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act was designed to mitigate the economic effects of the COVID-19 pandemic in a variety of ways, including providing additional UI provisions.

- Title II, Subtitle A, Section 2102 of the CARES Act creates the Pandemic Unemployment Assistance temporary federal program which provides up to 39 weeks of benefits to individuals who are not eligible for regular UC or extended benefits under State or Federal law or PEUC. These benefits were also for those individuals self-employed, individuals seeking part-time employment and those lacking sufficient work history. For further guidance under the Pandemic Unemployment Assistance Program during the period, refer to UIPL No. 16-20, and UIPL No. 16-20 Change I.

- Title II, Subtitle A, Section 2104 of the CARES Act creates the Federal Pandemic Unemployment Compensation Program, as a temporary emergency increase in unemployment compensation benefits, providing an additional $600 per week to individuals who are collecting regular UC, including Unemployment Compensation for Federal Employees and Unemployment Compensation for Ex-Servicemembers, as well as to the Pandemic Emergency Unemployment Compensation program, the Pandemic Unemployment Assistance program, the Extended Benefits program, the Short-Time Compensation program, the Trade Readjustment Allowances program, the Disaster Unemployment Assistance program, and the Payments under the Self-Employment Assistance program. For further guidance under the Federal Pandemic Unemployment Compensation Program during the period, refer to UIPL No. 15-20, UIPL No. 15-20 Change I, and UIPL No. 15-20 Change II.

- Title II, Subtitle A, Section 2107 of the CARES Act creates the Pandemic Emergency Unemployment Compensation temporary federal program, which provides up to 13 weeks of benefits to individuals who have exhausted all rights to regular compensation under state or Federal law with respect to a benefit year that ended on or after July 1, 2019; have no rights to regular compensation with respect to a week under any State or Federal UC law; are not receiving compensation with respect to such week under the UC law of Canada; and are able to work, available to work and actively seeking work. For further guidance under the Pandemic Emergency Unemployment Compensation Program during the period, refer to UIPL No. 17-20, and UIPL No. 17-20 Change 1.

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

Finding No. 2020-008 (Continued)

Criteria (Continued)

The state must comply with the provisions contained in the state Agreements with the Department to administer PEUC, PUA and FPUC programs and all funding instruments for such programs. States must perform such duties and functions in accordance with Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 C.F.R. Part 200 and 2 C.F.R. Part 2900 applicable to all grants and cooperative agreements. Additionally, the Department's administrative requirements for grants and cooperative agreements at 29 C.F.R. Parts 31, 32, 38, 96, and 98 apply to grant funds provided for these activities.

Additionally, the **Department** must comply with the law 167 of 2018, where it is stipulated that as of 7/1/2019 the minimum weekly benefit would increase to $33 and the maximum weekly benefit would increase to $190. Thereafter, effective 7/1/2020, the minimum weekly benefit will increase to $60 and the maximum weekly benefit will increase to $240; taking into consideration that the benefit calculation will be made according to the table established by the Secretary through regulations prescribed in Regulation No. 9056: "Reglamento para Administrar el Seguro por Desempleo".

Cause of Condition

The large volume of claims stressed an outdated system and the unprecedented economic impact warranted rapid processing claims. The rapid implementation of the new unemployment benefit programs authorized by the CARES Act did not allow sufficient time to employ wage verification and other procedures. Other procedures to identify client identity, prior wages and overall eligibility were also weakened due to the unprecedented volume of claims and new procedures employed to expedite benefit payments. Lastly, the substantial increase in fraudulent claims activity is largely considered to be the result of sustain and targeted efforts impacting many states throughout the United States.

The lack of claimants' 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.

Effect of Condition

Fraudulent insurance claims have been paid and the unemployment insurance processing system require further enhancements to timely identify fraudulent benefit claims prior to disbursement. These enhancement shall be develop to ensuring the compliance with the federal program, including the prevention and detection of fraudulent benefit payments.

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

Finding No. 2020-008 (Continued)

Recommendation

We recommend management the following:

1. Continue to enhance procedures to timely identify fraudulent claims by strengthening controls within the unemployment insurance program claims processing system, as well as those newly implemented processing functionalities established within the new developed "FAST PUA" system.

2. Develop and implement a strategic plan to address the required modernization of the unemployment claims processing system.

3. The **Department's** staff in charge of determining eligibility be oriented regarding this requirement criteria to ensure that the unemployment insurance benefits are granted only to claimants that comply with all established requirements.

4. The **Department** should continue to perform collection efforts to the claimants which resulted with unemployment insurance benefits overpayments.

Questioned Costs

Known questioned costs amounted to $841,962.00. Projected questioned costs are undeterminable.

Auditee Response

See **Department's** Corrective Action Plan.

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

Finding No. 2020-009

Federal Agency:	United States Department of Labor
Federal Program Title and CFDA Number:	17.225 Unemployment Insurance 17.225 COVID-19 Unemployment Insurance
Compliance Requirement:	Special Test & Provisions- Match with IRS 940 FUTA Tax Form; UI Program Integrity – Overpayments; UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA); and Program Integrity Functions for the Regular UI Program – Cross Match Activities
Type of Finding:	Material Weakness in Internal Control (MW) and Instance of Noncompliance (NC)

This finding is similar to prior-year finding **2019-010**

Statement of Condition

Match with IRS 940 FUTA Tax Form

- This report was submitted 6 days after due date.

Unemployment Insurance (UI) Program - Overpayments:

We examined 120 Unemployment's Insurance overpayments files selected in our sample. As a result of our testing, we noted the following instances of noncompliance:

- 1 of 120 cases, which represents a 1% of the sample, was an overpayment that did not proceed. Once the external auditor requested information of the case, the department detected that it was not appropriate and in July 2022 the overpayment was deleted on the SABEN platform.

- 22 of 120 cases, which represents an 18% of the sample, the period of 24 months that the Investigation Unit has from the date on which the overpayment is established to intervene in the cases and classify them as premeditated (fraud) or not premeditated already expired. After this period, the Investigation Unit can intervene, but if the case was premeditated (fraud), the department loses the power to disqualify the claimant from receiving benefits during a year and to impose the penalty; it can only recover the overpayment for a period of five years from the date on which the overpayment was established.

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

Unemployment Insurance (UI) Program – Overpayments (Continued):

- 1 of 120 cases, which represents a 1% of the sample, the case was classified as premeditated (fraud), but because the checks expired the overpayment did not proceed. The UI overpayment was deleted, but due to an error on the codification on the SABEN platform the FPUC (Supplementary Benefit) overpayment has not been codified to eliminate the FPUC overpayment. The Investigation Unit cannot revoke the penalty of the UI overpayment on the claimant until the FPUC overpayment is eliminated.

- 1 of 120 cases, which represents a 1% of the sample, the overpayment was classified as administrative, but because the checks were expired the overpayment did not proceed. The UI overpayment was eliminated, but the FPUC (Supplementary Benefits) overpayment has not been eliminated yet on the SABEN platform, creating an overpayment the claimant do not owe.

- 4 of 120 cases, which represents a 3% of the sample, classified as premeditated (fraud) the document "Determinación y Descalificación de Sobrepagos" presented errors on the calculation of the total overpayment and the penalty imposed, causing and incongruence between the document and the total overpayment presented on the webpage "Historial de Sobrepago" (Screen 09) of the SABEN platform and the amount recomputed by the auditor.

- 4 of 120 cases, which represents a 3% of the sample, classified as premeditated (fraud) the document "Determinación y Descalificación de Sobrepagos" was not obtained for examination. This document is created on the BARTS platform, and due to a lack of updates on the platform the Investigation Unit had to prepare the case manually and not through the platform. By not having this document, the auditor could not validate that the total amount of overpayment and penalty reflected in the document agreed with the information on the SABEN platform and the amount recomputed by the auditor.

- 1 of 120 cases, which represents a 1% of the sample, the auditor was unable to examine the document PR-SD 353.

- 78 of 120 cases, which represent a 65% of the sample, the overpayments were not recovered by PRDOL. The total overpayments of UI and FPUC claims included on our testing not recovered by the Department totals $447,116, where $115,480 correspond to the UI program and $331,636 to the FPUC program.

- The NSE ("Negociado de Seguridad de Empleo") does not perform a follow-up process, or a continuous monitoring process for the recovery of the overpayments. The auditor could not validate the Billing Notice to recovery of overpayments of the claimants on the "Recover" platform, which has not been operating since November 20, 2020.

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

Pandemic Unemployment Assistance (PUA) Program - Overpayments:

We examined 120 Pandemic Unemployment Assistance overpayments files selected in our sample. As a result of our testing, we noted the following instances of noncompliance:

- 69 of 120 cases, which represents a 58% of the sample, the period of 24 months that the Investigation Unit has from the date on which the overpayment is established to intervene in the cases and classify them as premeditated (fraud) or not premeditated already expired. After this period, the Investigation Unit can intervene, but if the case was premeditated (fraud), the department loses the power to disqualify the claimant from receiving benefits during a year and to impose the penalty; it can only recover the overpayment for a period of five years from the date on which the overpayment was established.

- 2 of 120 cases, which represent a 2% of the sample, the Department must reimburse the claimant for overpayments recovered in an amount greater than the total amount of the overpayment.

- 1 of 120 cases, which represents a 1% of the sample, the claimant has an overpayment as a result of a monetary redetermination, and the overpayment has not been created and therefore has not been recovered.

- 1 of 120 cases, which represents a 1% of the sample, there was an error in determining the weekly benefit amount, where the weekly benefit given for PUA was $660 instead of $66.

- 2 of 120 cases, which represent a 2% of the sample, the document PR-SD 353 was not provided for examination.

- 1 of 120 cases, which represents a 1% of the sample, the document PR-SD 353 was incomplete, presenting income in weeks subsequent to the overpayment. This observation had not been made by management until the intervention of the auditor.

- 2 of 120 cases, which represents a 2% of the sample, the documents PR-SD 647 and PR-SD 648 was not provided for examination.

- 1 of 120 cases, which represents a 1% of the sample, classified as premeditated (Fraud), but due to the lack of documents, the term to disqualify the claimant and impose the penalty has already passed. Depending on whether or not the documents are found, the overpayment is classified as no premeditated or the overpayment is eliminated.

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

Pandemic Unemployment Assistance (PUA) Program – Overpayments (Continued):

- 4 of 120 cases, which represent a 3% of the sample, the overpayments have the same program codification (41) but do not pertain to PUA. They belong to one of the DUA programs active during the period. Some of these overpayments were created automatically by the SABEN platform when a claimant who received DUA, applied for the PUA benefits. Therefore, the department does not have procedures whereby programs can be segregated to identify overpayments and classify them properly.
- 3 of 120 cases, which represent a 3% of the sample, classified as premeditated (fraud) the document "Determinación y Descalificación de Sobrepagos" was not obtained for examination. This document is created on the BARTS platform, and due to a lack of updates on the platform the Investigation Unit had to prepare the case manually and not through the platform. By not having this document, the auditor could not validate that the total amount of overpayment and penalty reflected in the document agreed with the information on the SABEN platform and the amount recomputed by the auditor.
- 88 of 120 cases, which represent a 73% of the sample, the overpayments were not recovered by PRDOL. 4 of these overpayments belong to the DUA program which have the same coding as the PUA on the SABEN platform (code 41), and therefore are not segregated, have a total balance of $1,449 without being recovered by the PRDOL. The remaining 85 overpayments, due to the fact that one claimant presents overpayments from both DUA and PUA programs; present a total balance without being recovered by the PRDOL of $135,284; in where $31,633 correspond to the PUA program, and $103,651 to the FPUC program.
- The NSE ("Negociado de Seguridad de Empleo") does not perform a follow-up process, or a continuous monitoring process for the recovery of the overpayments. The auditor could not validate the Billing Notice to recovery of overpayments of the claimants on the "Recover" platform, which has not been operating since November 20, 2020.

Pandemic Emergency Unemployment Compensation (PEUC) Program - Overpayments:

We examined 120 Pandemic Emergency Unemployment Compensation overpayments files selected in our sample. As a result of our testing, we noted the following instances of noncompliance:

- 4 of 120 cases, which represents a 3% of the sample, the period of 24 months that the Investigation Unit has from the date on which the overpayment is established to intervene in the cases and classify them as premeditated (fraud) or not premeditated already expired. After this period, the Investigation Unit can intervene, but if the case was premeditated (fraud), the department loses the power to disqualify the claimant from receiving benefits during a year and to impose the penalty; it can only recover the overpayment for a period of five years from the date on which the overpayment was established.

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

Pandemic Emergency Unemployment Compensation (PEUC) Program – Overpayments (Continued):

- 1 of 120 cases, which represents a 1% of the sample, the document PR-SD 353 was incomplete, since it did not presented the claimant's earnings in one of the weeks of the overpayment.
- 1 of 120 cases, which represents a 1% of the sample, the claimant paid an overpayment that was eliminated and therefore, the Department owes that money to the claimant.
- 25 of 120 cases, which represents a 21% of the sample, present PEUC benefits payments prior to ending week 4/4/2020, week in which benefits began to be provided under this program.
- 1 of 120 cases, which represents a 1% of the sample, $240 weekly benefit was disbursed prior to 7/1/2020, the date on which the maximum weekly benefit increased from $190 to $240 according to the law.
- 1 of 120 cases, which represents a 1% of the sample, the overpayment was established on 8/9/2021 and was classified as premeditated (fraud); however, the 15% penalty was imposed only to the PELIC overpayment and not to the FPUCJ overpayment.
- 38 of 120 cases, which represent a 32% of the sample, the overpayments were not recovered by PRDOL. The total overpayments of PEUC and FPUC claims included on our testing not recovered by the Department totals $29,565, where $3,564 correspond to the PEUC program and $26,001 to the FPUC program.
- The NSE ("Negociado de Seguridad de Empleo") does not perform a follow-up process, or a continuous monitoring process for the recovery of the overpayments. The auditor could not validate the Billing Notice to recovery of overpayments of the claimants on the "Recover" platform, which has not been operating since November 20, 2020.

Federal Pandemic Unemployment Compensation (FPUC) Program - Overpayments:

- Refer to Unemployment Insurance (UI) Program instances of noncompliance mentioned above.
- Refer to Pandemic Unemployment Assistance (PUA) Program instances of noncompliance mentioned above.
- Refer to Pandemic Emergency Unemployment Compensation (PEUC) Program instances of noncompliance mentioned above.

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA)

We examined 25 claimants who participated on the Reemployment Services and Eligibility Assessments (RESEA) program and as a result of our testing; we noted the following instances of noncompliance:

- 11 of 25 cases, which represent a 44% of the sample, the participant did not attend to the initial RESEA session.

- 3 of 25 cases, which represent a 12% of the sample, the participant did not attend the rescheduled session of the RESEA program.

- 1 of 25 cases, which represents a 4% of the sample, the participant did not register in Wagner Peyser (WP).

Additionally, related to this test the following documents were not available on the Power App Platform:

- 10 of 25 cases, which represent a 40% of the sample, the form "Historial de Empleo" was not available for examination.

- 11 of 25 cases, which represent a 44% of the sample, the form DSE 128 "Evaluación de Destrezas" was not available for examination.

- 7 of 25 cases, which represent a 28% of the sample, the form 231 "Revisión de Elegibilidad del Reclamante" was not available for examination.

- 12 of 25 cases, which represent a 48% of the sample, the "Plan Individual de Reempleo" was not available for examination.

- 7 of 25 cases, which represent a 28% of the sample, the "Plan de Empleabilidad" was not available for examination.

- 7 of 25 cases, which represent a 28% of the sample, the Objective Evaluation was not included.

- 12 of 25 cases, which represents a 48% of the sample, the "Registro para Servicios de Carrera" was not included.

- 18 of 25 cases, which represents a 72% of the sample, evidence of employment efforts was not available (Form "Registro Gestiones de Búsqueda de Empleo).

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

Finding No. 2020-009 (Continued)

Statement of Condition (Continued)

UI Reemployment Programs: Worker Profiling and Reemployment Services (WPRS) and Reemployment Services and Eligibility Assessments (RESEA) (Continued)

- 8 of 25 cases, which represent a 32% of the sample, the form "Auto-Evaluación" was not available for examination.

- 21 of 25 cases, which represent an 84% of the sample, participants did not obtain employment.

Program Integrity Functions for the Regular UI Program – Cross Match Activities

Unemployment Insurance (UI) Program - Cross Match Activities:

Based on procedures conducted on the performance of cross-match activities by the Department on an ongoing basis, the results of our testing determine the following instances of noncompliance:

- The PRDOL does not perform the National Directory of New Hires Cross-Match activity since 2016.

- The PRDOL did not perform the Quarterly Wage Records Cross-Match activity for the fourth quarter of the fiscal year (March through June, 2020).

- No evidence was presented for examination by the auditor that the Systematic Alien Verification for Entitlement (SAVE) cross-match activity was conducted during the period.

Pandemic Unemployment Assistance (PUA) Program - Cross Match Activities:

Based on procedures conducted on the performance of cross-match activities by the Department on an ongoing basis, the results of our testing determine the following instances of noncompliance:

- The three mandatory cross-match activities were not performed by the PRDOL in the quarter ending 6/30/2020. The three mandatory cross-match activities are:

    - National Directory of New Hires Cross-Match
    - Quarterly Wage Records Cross-Match
    - Systematic Alien Verification for Entitlement (SAVE) Cross-Match

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

Finding No. 2020-009 (Continued)

Program Integrity Functions for the Regular UI Program – Cross Match Activities (Continued)

Pandemic Emergency Unemployment Compensation (PEUC) Program - Cross Match Activities:

Based on procedures conducted on the performance of cross-match activities by the Department on an ongoing basis, the results of our testing determine the following instances of noncompliance:

- The three mandatory cross-match activities were not performed by the PRDOL in the quarter ending 6/30/2020. The three mandatory cross-match activities are:

    - National Directory of New Hires Cross-Match
    - Quarterly Wage Records Cross-Match
    - Systematic Alien Verification for Entitlement (SAVE) Cross-Match

Criteria

Based on 26 CFR section 31.3302(a)-3(a), states are required to annually certify for each taxpayer the total amount of contributions required to be paid under the state law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax. In order to accomplish this certification, states annually perform a match of employer tax payments with credit claimed for these payments on the employer’s IRS 940 FUTA tax form.

Public Law 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. For further explanation refer to UIPL No. 02-12, UIPL No. 02-12 Change 1, and UIPL No. 02-12 Change 2.

Public Law No. 74 “Ley de Seguridad de Empleo de Puerto Rico”, enacted on June 21, 1956, and effective January 1, 1957, establishes on section 4(b)(7), that within the twenty-four (24) calendar months immediately preceding such week of overpayment and with intent to commit fraud to obtain benefits that were not payable under this law, if the claimant has made any false statement or representation about a material fact knowing that it was false or knowingly concealed some material fact for the purpose of obtaining or increasing the benefits under this law, in which case it will be disqualified for the week in which the Director makes a determination in this regard and for the fifty-two (52) weeks immediately following such week.

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

Finding No. 2020-009 (Continued)

Criteria (Continued)

As established on UIPL No. 15-20, published on April 4, 2020, if an individual is deemed ineligible for regular compensation in a week and the denial creates an overpayment for the entire weekly benefit amount, the FPUC payment for the week will also be denied; and the FPUC overpayment must also be created. This also applies for the PUA and PEUC programs. Section 2104(f) of the CARES Act only provides for an individual being ineligible for future benefits in accordance with the applicable provisions of state UC law, it does not permit the establishment of a penalty on FPUC that was fraudulently obtained, so states may not impose fraud penalty provisions on FPUC payments.

Based on UIPL No. 16-20, published on April 5, 2020, the requirements of 20 CFR 625.14 shall apply with respect to PUA overpayments and fraud to the same extent and in the same manner as in the case of DUA.

Based on UIPL No. 20-21, published on May 5, 2021, prescribes that states must apply the fraud monetary penalty for FPUC, MEUC, PEUC, and the first week of regular UC that is reimbursed in accordance with Section 2105 of the CARES Act for all fraud overpayments established on or after the date of publication for this UIPL.

Sec. 306 of 42 U.S.C. 506(a) prescribes that the Secretary of labor (in this section referred to as the "Secretary") shall award grants under this section for a fiscal year to eligible States to conduct a program of reemployment services and eligibility assessments for individuals referred to reemployment services as described in section 303(j) for weeks in such fiscal year for which such individuals receive unemployment compensation.

Worker Profiling and Reemployment Services (WPRS), which is mandated by Section 303(j) of the Social Security Act, is designed to identify UI claimants who are most likely to exhaust their benefits and need reemployment assistance to return to work, and refer them to appropriate reemployment services, such as: job search and job placement assistance; counseling; testing; provision of occupational and labor market information; and assessments. The number of individuals served under the WPRS is determined by the state (and/or local areas) based on its capacity to serve these individuals. UIPL No. 41-94 provides guidance on WPRS requirements.

RESEA is authorized by Section 306 of the Social Security Act and builds on the success of both WPRS and RESEA's predecessor, the former UI Reemployment and Eligibility Assessment (REA) program. RESEA uses an evidence-based integrated approach that combines an eligibility assessment for continuing UI eligibility and the provision of reemployment services. Operating guidance for the RESEA program is updated annually. UIPL No. 08-20 provides RESEA operating guidance for FY 2020.

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

Finding No. 2020-009 (Continued)

Criteria (Continued)

Section 7511, Part V, of the Employment Security Manual (ESM) requires state unemployment compensation (UC) laws to include provisions for such methods of administration as are, within reason, calculated (1) to detect benefits paid through error by the state UC agency or through willful misrepresentation or error by the claimant or others, (2) to deter claimants from obtaining benefits through willful misrepresentation, and (3) to recover benefits overpaid under certain circumstances.

These required functions are accomplished through state agency BPC units or other designated staff responsible for promoting and maintaining the integrity of the UI program through prevention, detection, investigations, establishment, and recovery of overpayments. BPC units or designated staff also prepares cases for prosecution.

The following BPC activities are mandatory for states to implement for the regular UI programs on an ongoing basis. States must implement these functions for the PEUC and PUA programs in the same manner as for the regular UI programs.

- National Directory of New Hires Cross-match (UIPL No. 13-19 and UIPL No. 19-11). UIPL No. 13-19 provides detailed, recommended operating procedures for crossmatching with state and national directories of new hire data;

- Quarterly Wage Records Cross-match (20 CFR § 603.23); and

- Systematic Alien Verification for Entitlement (SAVE) (Section 1137(d) of the Social Security Act (SSA) (42 U.S.C. §1320b-7).

Cause of Condition

Deficiencies in the programmatic system related on overpayments of benefits from UI and the CARES Act temporary programs established due to the COVID-19 pandemic; which causes a lack in segregation and classification of overpayments by programs to maintain a proper follow-up of such overpayments. Lack on follow-up procedures for the collection of overpayments before they become uncollectible.

Deficiencies in the programmatic system for the examination of claimants who participate in reemployment programs.

Deficiencies detecting errors on benefit payments, or preventing non-eligible claimants from obtaining benefits through willful misrepresentation, by not implementing cross-match activities properly and timely.

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

Finding No. 2020-009 (Continued)

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.

By not implementing mandatory cross-activities, the **Department** faces a higher volume of potentially fraudulent or ineligible claims, and failing to timely detect and stop possible benefit payments to individuals who knowingly misrepresent their information.

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**.**

In the same way, the **Department** must implement processes where those claimants who are not eligible or who present erroneous information can be detected in time, in order to reduce the amount of improper payments disbursed and therefore, reduce the volume of overpayments.

Questioned Costs

None.

Auditee Response

See **Department's** Corrective Action Plan.

Finding No. 2019-010

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

This finding is similar to prior-year finding **2019-011**

The Data Collection Form and the Reporting Package for the year ended June 30, 2020 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, 2020.

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

Finding No. 2019-010 (Continued)

Auditee Response

See **Department's** Corrective Action Plan.

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2019-001	***Accounting System***		
	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.	In process	2020-001 (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 2019 financial statements.	In process	2020-001 (item 2)
	3. No adequate and timely recording procedures are performed in the general ledger accounts.	In process	2020-001 (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	2020-001 (item 4)
	5. The financial information is not reviewed, analyzed and reconciled on a monthly basis by management.	In process	2020-001 (item 5)
	6. Certain differences were identified between the general ledger and the subsidiaries or details provided by management in the accounts payable area.	Corrected	N/A
	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	2020-001 (item 6)
	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.	In process	2019-001 (item 8)
	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.		

<table>
<tr><th>FINDING NUMBER</th><th>FINDING OR CONDITION</th><th>CURRENT STATUS</th><th>REFER TO CURRENT YEAR FINDING</th></tr>
<tr><td>2019-002</td><td><i>Cash Accounts and Reconciliation Procedures</i>
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.</td><td>Corrected</td><td>N/A</td></tr>
<tr><td></td><td>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:
<table>
<tr><th>Bank Account No.</th><th>Account Name</th><th>Difference</th></tr>
<tr><td>367-1002-8/030-051045/367-1701-2</td><td>Special Disbursement Officer</td><td>$ (13,067,240)</td></tr>
<tr><td>256-0006-8</td><td>Work opportunities Incentive Fund</td><td>$ (48,855,201)</td></tr>
<tr><td>256-0005-9</td><td>Administration of the Bureau of Employment Security</td><td>$ (19,161,961)</td></tr>
<tr><td>256-0003-2/030-050286</td><td>Auxiliary Special Fund (FAE)</td><td>$ (1,001,625)</td></tr>
<tr><td>200-3090-4</td><td>IBA'S Drivers</td><td>$ (2,854,548)</td></tr>
<tr><td>030-049806</td><td>IBA'S SINOT</td><td>$ (338,906)</td></tr>
</table></td><td>Corrected</td><td>N/A</td></tr>
<tr><td></td><td>- The following bank reconciliations as of June 30, 2019 included reconciling items over fourteen years old: a) Account Number 367-1002-8; b) Special Disbursement Officer
- Account Number 367-1701-2- Special Disbursement Officer-Payroll</td><td>Corrected</td><td>N/A</td></tr>
<tr><td></td><td>3. 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.</td><td>Corrected</td><td>N/A</td></tr>
<tr><td>2019-003</td><td><i>Financial Reporting: Subsidiaries of Accounts Receivable – Proprietary Funds</i>
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. Insurance Premiums - 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.</td><td>In process</td><td>2020-003 (item 1)</td></tr>
<tr><td></td><td>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.</td><td>In process</td><td>2020-003 (item 2)</td></tr>
<tr><td></td><td>3. The Department does not have an adequate methodology to record, review, and adjust the provision for bad debts.</td><td>In process</td><td>2020-003 (item 3)</td></tr>
</table>

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2019-004	***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	2020-004 (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	2020-004 (item 2)
	3. Certain capital assets of the FEWTA were excluded from the financial statements.	In process	2020-004 (item 3)
2019-005	***Financial Reporting: Accounts Payable, Unearned Revenues, Benefits Payable, and Encumbrances*** During our audit procedures over the accounts payable area, we noted the following:	Partially Corrected	
	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.	Corrected	N/A
	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, 2019.	Corrected	N/A
	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	2020-005 (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	2020-005 (item 1)
	Encumbrances – Governmental Funds		
	1. Subsidiaries of encumbrances are not reconciled with the general ledger accounts.	Corrected	N/A

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2019-006	**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.	Corrected	N/A
	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.	Corrected	N/A
	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.	Corrected	N/A
2019-007	**U.S. DEPARTMENT OF LABOR** ***Financial Reporting – All Federal Programs Reportable Condition***		
	As discussed in Findings **2019-001**, **2019-002**, **2019-004**, and **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.	In process	2020-006

FINDING NUMBER	FINDING OR CONDITION	CURRENT STATUS	REFER TO CURRENT YEAR FINDING
2019-008	**U.S. DEPARTMENT OF LABOR** **17.225 – Unemployment Insurance** ***Internal control over reporting compliance*** 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.	In process	2020-007
2019-009	**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.	In process	2020-008
2019-010	**U.S. DEPARTMENT OF LABOR** **17.225 – Unemployment Insurance** **Special Test & Provisions- UI Program Integrity - Overpayments** 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.	In process	2020-009
2019-011	**U.S. DEPARTMENT OF LABOR** ***Reporting – All Federal Programs Reportable 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.	In process	2020-010