

**COMMONWEALTH OF PUERTO RICO
MENTAL HEALTH AND ANTI-ADDICTION
SERVICE ADMINISTRATION**

FINANCIAL STATEMENT AND SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

**(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)**

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PART I
FINANCIAL

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“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

INDEPENDENT AUDITOR'S REPORT

To the Administrator of the
Mental Health and Anti-Addiction Services Administration
PO Box 607087
Bayamón, Puerto Rico 00960-7087

Report on the Financial Statement

We have audited the accompanying cash basis financial statement of the **Mental Health and Anti-Addiction Services Administration (MHAASA)** of the Commonwealth of Puerto Rico, which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2021, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with cash basis of accounting described in Note 2. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

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

INDEPENDENT AUDITOR'S REPORT
To the Administrator of the
Mental Health and Anti-Addiction Services Administration
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We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of the **MHAASA** governmental funds, and the respective cash basis net changes thereof for the year ended June 30, 2021, in conformity with the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statement that describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other

As discussed in Note 1, the financial statement of the **MHAASA** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **MHAASA**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2021, 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, on pages 34-37, is presented for purposes of additional analysis and is not a required part of the financial statement. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement 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 financial statement as a whole.

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Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2022 on our consideration of the **MHAASA's** internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **MHAASA's** internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 15, 2022

Stamp No. E491026 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.

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COMMONWEALTH OF PUERTO RICO
 MENTAL HEALTH AND ANTI-ADDICTION SERVICES ADMINISTRATION

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
 AND NET CHANGES – GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Federal Grants Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:				
Appropriations from the Commonwealth of Puerto Rico	\$ 99,057,000	\$ -	\$ 12,113,890	\$ 111,170,890
Other Grants	-	-	396,940	396,940
Federal Grants	-	61,529,391	-	61,529,391
Total Cash Receipts	<u>99,057,000</u>	<u>61,529,391</u>	<u>12,510,830</u>	<u>173,097,221</u>
CASH DISBURSEMENTS:				
Administration	10,408,303	5,782,586	369,856	16,560,745
Prevention	1,780,497	4,632,082	-	6,412,579
Drug Treatment	3,760,979	35,631,023	595,389	39,987,391
Mental Health	-	8,683,612	-	8,683,612
Hospitalization Services	30,685,299	-	3,881,740	34,567,039
Ambulatory Services	8,228,591	-	114,337	8,342,928
Regulators	166,362	-	315	166,677
Community Support	521,539	-	-	521,539
Internal Treatment Services	14,145,892	-	9,161	14,155,053
Quality Service Office	413,265	-	-	413,265
Coronavirus State Funds	-	-	363,288	363,288
Coronavirus Relief Fund - Federal	-	4,484,160	-	4,484,160
Sub-Total	<u>70,110,727</u>	<u>59,213,463</u>	<u>5,334,086</u>	<u>134,658,276</u>
Pass-Through Funds to Non-Governmental Entities	-	-	6,448,592	6,448,592
Total Cash Disbursements	<u>70,110,727</u>	<u>59,213,463</u>	<u>11,782,678</u>	<u>141,106,868</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	<u>\$ 28,946,273</u>	<u>\$ 2,315,928</u>	<u>\$ 728,152</u>	<u>\$ 31,990,353</u>

The accompanying *Notes to the Financial Statement* are an integral part of this Statement.

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1. FINANCIAL REPORTING ENTITY

A. Organization

The Mental Health and Anti-Addiction Services Administration (MHAASA) was created by Act Number 67 of August 7, 1993 of the Commonwealth of Puerto Rico. The MHAASA is ascribed to the Puerto Rico Department of Health (PRDH), with legal personality, capacity to sue and be sued and fiscal and administrative autonomy.

The MHAASA's mission is to promote, maintain and restore mental health of residents of Puerto Rico. Also, they guarantee accessible, of quality and cost-effective prevention, treatment, and rehabilitation services in the mental health area, including drug abuse in an environment of respect and confidentiality. The MHAASA is responsible for the planning, implementation and evaluation of alcohol and drug abuse programs, which use a dynamic approach across human development stage from prevention through treatment and rehabilitation. The authority to approve the manufacturing, dispensing and distribution of controlled substances for therapeutic usage that previously corresponded to the MHAASA, was transferred to the Secretary of the PRDH.

The MHAASA provides all mental health and substance abuse services at the treatment centers. The major services offered by the MHAASA are day treatment, partial hospitalization, residential, outpatient and inpatient and emergency services.

Program income of the MHAASA is derived from agreements with third party payors under several arrangements such as: unit claim, fixed capitation, per-diem and others that are the basis for some revenues that are presented in the Statement of Cash Receipts and Disbursements.

B. Financial Reporting Entity

The MHAASA is for financial reporting purposes, part of the Department of Health of Puerto Rico (PRDH) of the Commonwealth of Puerto Rico. Because the MHAASA is for financial reporting purposes, part of the PRDH, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. The MHAASA accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the MHAASA's management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

The MHAASA's accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a special purpose framework of other comprehensive basis of accounting (OCBOA), a financial statement for state and local government other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

Because of the unavailability of reference materials and guidance and to provide some consistency over the preparation of other comprehensive basic of accounting (OCBOA) financial statements for states and local government, the AICPA developed a practice aid title *Applying OCBOA in State and Local Governmental Financial Statements*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2020-2021. No accrual is recognized.

The timing of cash receipts from the Federal Government may differ from the date federally funded payments are made. All these factors in cash receipts recognition result in an excess of cash receipts over (under) disbursements at year-end.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the MHAASA's financial statement. No long-term debt is reported in the MHAASA's financial statement. No accrued compensated absences are reported in the MHAASA's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of the MHAASA are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of three funds which are described below. The accounts of the MHAASA are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The MHAASA reports the following major governmental funds:

- **General Fund** – The general fund is the main operating fund of the MHAASA. It is used to account for all financial resources except those required to be accounted for separately. All funds received from the Government that are not restricted by law or contractual agreement are recorded in this fund. Also, it accounts for the Government funds available and not used in prior years by budgetary fund.
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by the MHAASA. Federal funds are legally restricted to expenditures for specified purposes.
- **Other Governmental Funds** – This fund is used to account for resources or funds that are deposited for specific purposes in accordance with its applicable laws. They can come from the Legislature of the Commonwealth of Puerto Rico, which are designated to achieve specific purposes. Expenditures charged to these accounts are authorized by legislation previously approved.

The major funds are presented in the following individual programs to account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- **Administration** – This function is used to account for resources and expenditures related to the supervision and coordination of all services and operations from the central office.
- **Prevention** – This function is used to account for resources and expenditures associated with the prevention of the alcoholism and drugs abuse.
- **Drug Treatment** – This function is used to account for resources and associated with the drug treatment.
- **Mental Health** – This function is used to account for resources and associated with the mental health treatment.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Hospitalization Services* – This function is used to account for resources and expenditures for cares of hospitalization services provided.
- *Ambulatory Services* – This function is used to account for resources and expenditures for cares of mental health, drug and alcoholism abuse by ambulatory services provided.
- *Regulators* – This function is used to account for resources and expenditures related to the regulation of private and public installations for mental health, drug and alcoholism abuse.
- *Community Support* – This function is used to account for resources and expenditures related to services for the support to the communities.
- *Internal Treatment Services* – This function is used to account for resources and expenditures for cares of internal treatment services provided.
- *Quality Service Office* – This function is used to account for resources and expenditures related to the monitoring of private and public organization.
- *Economic Incentive Covid-19* – This function is used to account for resources and expenditures related to the incentive provided during the pandemic of the COVID-19 from State and Federal funds.

Notes to the Financial Statement

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

B. Stewardship, Compliance, and Accountability

Budgetary Information

The MHAASA's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. The MHAASA is granted the right to draw against available funds of the Secretary of the Treasury as its mean to incur in expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to the MHAASA as it relates to funds appropriated by the Commonwealth.

Cash disbursements for budgetary expenditures are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, *Puerto Rico Oversight, Management and Economic Stability Act* (PROMESA).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of the MHAASA.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. Under the budgetary basis of accounting, revenues are recorded when cash is received. The unencumbered balance of any appropriation at the end of the year will lapse at the end of such fiscal year. The legal of budgetary control at the MHAASA are for general and special funds expenditures.

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the Federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

On April 29, 2017, Act No.26 established that allocations and funds without a specific economic year, that have remained on the books without movement of disbursement or obligation for one year will be considered as having fulfilled their purposes, thus, they will be closed and entered into the General Fund; to provide that those special funds created by Law for specific purposes will be credited to the Puerto Rico Treasury Department's General Fund and will be deposited in the current bank account of the Secretary of the Treasury for the latter to have full dominion over the same.

C. Compensated Absences

The MHAASA accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 26 of April 29, 2017, the MHAASA's employees are granted 15 days of vacations and 18 days of sick leave annually. After the approval of Act No. 8 of February 4, 2017, new employee accumulates retroactively after the first 3 months of employment, 15 days of vacations and 12 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. Payment of the excess of 60 days of vacation and 90 days of sick leave are not allowed and would be eliminated at the end of each calendar year.

D. Reduction of Working Day

Act No. 8 of February 4, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

E. Risk Financing

The MHAASA is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the MHAASA are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the MHAASA.

The MHAASA carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACCA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACCA.

The MHAASA obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the MHAASA and deducted from the state appropriation for the year ended June 30, 2021 amounted to \$608,683.

The MHAASA obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis. Total paid during fiscal year ended June 30, 2021 was undetermined.

F. Accounting for Pension Costs

As further disclosed in Note 6, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.
- 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 municipalities, also participate in ERS.

G. Other Postemployment Benefits

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 6, 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 Municipalities funds (see Note 7).

In accordance with 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.

3. CASH WITH FISCAL AGENT (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)

The funds of the MHAASA are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law”. The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the MHAASA in such pooled cash accounts are available to meet its current operating requirements.

4. FUND ADVANCES

The MHAASA receives fund advances from the Treasury Department of Puerto Rico for the interim financing of Federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth’s Treasury as the corresponding Federal funds are received. During the fiscal year ended June 30, 2021, funds were advanced to the MHAASA for this purpose.

5. LEASE COMMITMENTS

The MHAASA leases various properties and equipment under operating leases agreements. Rental expenditures for the year ended June 30, 2021, related to such commitments amounts to approximately \$3.4 million. Future operating leases commitments are schedule as follows:

Fiscal Year Ended	Amount
June 30,	
2022	\$ 3,415,736
2023	3,298,394
2024	3,388,831
2025	3,152,188
2026	3,118,510
Thereafter	<u>36,626,316</u>
TOTAL	<u>\$52,999,975</u>

6. PENSION PLAN

Description of the Plan

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. After that, new employees hired July 1, 2017 and later will not become ERS members, current ERS members will no longer make any contributions to ERS, and ERS will be funded on a “Pay-As-You-Go” basis.

6. PENSION PLAN – continuation

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.

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:

- 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* – 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.

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.

continue

6. PENSION PLAN – continuation

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* – 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* – 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.

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.

6. PENSION PLAN – continuation

(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.

- 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.

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.

continue

6. PENSION PLAN – continuation

- 2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determined 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.

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, plus 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 to 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 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 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

6. PENSION PLAN – continuation

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

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. 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.

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, 2018 to 3.50% as of June 30, 2019. The projected mortality improvement scale was updated from Scale MP-2018 to Scale MP-2019 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.

continue

6. PENSION PLAN – continuation

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:

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 result of the Act No. 3-2017 four year extension of the Act No. 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

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

6. PENSION PLAN – continuation

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.

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 Scales AA. 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.

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.

6. PENSION PLAN – continuation

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 2 E. 12). The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2019 and 2020, was as follow:

	June 30, 2019	June 30, 2020
Discount Rate	3.87%	3.50%
20 Year Tax-Exempt Municipal Bond Yield	3.87%	3.50%

“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.

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.

6. PENSION PLAN – continuation

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 thought 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 provides additional information of the Defined Benefit Program and Hybrid Program. They issue a 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.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 6 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 Commonwealth 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.

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 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.

continue

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation

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.

8. CONTINGENCIES

A. Federal Awards

In the normal course of operations, the MHAASA participates in various Federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. Also, are subject to the Single Audit Act and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such agencies have the authority to determine liabilities, as well as, to limit, suspend, or terminate the federal financial assistance programs. Other federal and local programs are also subject to audit. If any un-allowed cost is detected because of such compliance audits, the MHAASA may be required to reimburse such amounts to the corresponding federal and pass-through agencies from its own non-Federal resources.

MHAASA is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

B. Litigation

The Act No. 67-1973, provides that MHAASA is an entity with legal personality, capacity to sue and be sued and fiscal and administrative autonomy. The MHAASA is defendant in lawsuits arising in the normal course of governmental operations, including but not limited to labor, torts, and breach of contract. According to the laws of the Commonwealth of Puerto Rico, the MHAASA is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the MHAASA. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the MHAASA.

C. Collective Bargaining Agreement

As June 30, 2021, the MHAASA had 874 employees, which 689 employees were covered by a collective bargaining agreement. Under the provisions of the agreement the MHAASA must comply with specific requirements related to compensation, fringe benefits and other related matters. The collective bargaining agreement expires on June 30, 2022.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

PROMESA Overview

Background

Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade. As of 2018, the economy was \$18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth's outstanding debt and pension liabilities had grown to over \$120 billion – with more than \$70 billion in financial debt and more than \$50 billion in pension liabilities – an amount almost twice the size of Puerto Rico's economy.

Also, before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in *Puerto Rico v. Franklin Cal. Tax-Free Trust, et al.*, 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an "instrumentality of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

continue

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Conditions for Termination of the Oversight Board

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, and economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA, that define when the Oversight Board can be dissolved, were incorporated into the federal law to ensure the board disappeared, for good, once Puerto Rico's financial outlook stabilized and better financial management processes have been put in place.

An Oversight Board shall terminate upon certification by the Oversight Board that:

the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and

for at least 4 consecutive fiscal years—

the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and

the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting

Progress on Requirement Number 1: Adequate Access to Credit Markets at Reasonable Interest Rates

Sustainable Debt Restructuring

The Oversight Board has and is following a “once and done” approach to the restructurings, to ensure Puerto Rico will not be insolvent again. Together with the Government of Puerto Rico, the Oversight Board has made substantial progress in adjusting Puerto Rico's debt, the largest debt restructuring in the history of the municipal bond market. The confirmed PoA reduces the outstanding Commonwealth's debt and other claims by almost 80%, from \$33 billion of existing claims to \$7.4 billion in new debt. In addition, the Commonwealth's total debt service payments (including COFINA senior bonds) have been reduced by more than 60% to date, from \$90 billion to \$34 billion, saving Puerto Rico almost \$60 billion in debt service payments.

In May 2017, the Puerto Rico Government and the Government Development Bank (GDB) signed a Restructuring Support Agreement (RSA) with a significant portion of GDB creditors to restructure GDB's debt under PROMESA's Title IV. The RSA, as amended in April 2018, reduced about \$5 billion of debt to about \$3 billion, reducing the face value of claims by 45%. The debt payments are secured by GDB cash flow from certain legacy assets without recourse to the Puerto Rico Government. This restructuring cushioned municipalities by offsetting the loans they owed to the GDB by the full amount of their deposits at GDB.

In February 2019, the U.S. District Court approved the Plan of Adjustment for the Puerto Rico Sales Tax Financing Corporation (COFINA), the first debt restructuring completed under PROMESA's Title III. It reduced COFINA debt by \$6 billion, from \$18 billion to \$12 billion. Furthermore, it reduced debt service payments by 32%, saving the people of Puerto Rico approximately \$17.5 billion that will now be available to support the financial needs of the Commonwealth.

continue

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

In August 2019, the Puerto Rico Aqueduct and Sewer Authority (PRASA) and the Government of Puerto Rico reached an agreement with the U.S. Environmental Protection Agency (EPA) and U.S. Department of Agriculture (USDA) to a consensual modification of about \$1 billion of outstanding loans under PROMESA's Section 207. This agreement lowers PRASA's debt service payments on the U.S. Government program loans by about \$380 million over the next 10 years and eliminates approximately \$1 billion in guaranty claims against the Puerto Rico Government. Additionally, it provides PRASA with access to \$400 million in new federal funding through various clean water programs over the next five years to support PRASA's ongoing effort to improve water quality and safety for the people of Puerto Rico.

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately \$35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than \$50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of \$2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing \$2,600 to the Act 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

Key to the sustainability of any debt restructuring is the growth of the Puerto Rico economy. The Oversight Board has stressed for the past five years that returning to economic growth requires structural reforms to enhance the reliability of power; improve educational outcomes, labor market participation and labor productivity; enhance the ease of doing business on the Island; and generate more effective returns on capital investments and infrastructure. All of these aim to strengthen Puerto Rico's competitiveness in the global marketplace, attract new private capital, the creation of jobs, and ultimately a better life for the residents of the Island.

Timely Financial Reporting

The requirement related to timely financial reporting includes expectations that the Government publish past due audited financials begin issuing audited financial statements on a best practice basis (e.g., issue audited financial statements within six months after the fiscal year ends).

The Government of Puerto Rico has yet to produce long past due Annual Comprehensive Financial Report (ACFRs) for FY2019-FY2020. The Oversight Board has continuously encouraged the Government to finalize and publish its past due audited financial statements, including spending time at two recent public board meetings on the topic and providing increased funding for required personnel at Hacienda. The Commonwealth published fiscal year 2017 audited financial statements on August 31, 2020, taking more than 1,158 days (~38 months) to issuance. According to a study by the Governmental Accounting Standards Board (GASB), state governments issued their annual audited financial reports (ACFRs) on average 189 days after fiscal year-end during 2012-2014 and 199 days during 2015-2017.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Best practice calls for annual comprehensive financial reports (ACFRs) to be made public approximately 180 days or 6 months after the close of the fiscal year. Some states, like Michigan, have taken less than 100 days to release their ACFRs.

To achieve timely financial reporting the Government must, among other things, provide a detailed timeline and implementation plan, positioning Hacienda to successfully oversee the publication of the ACFRs, and signing a multi-year master audit contract. Perhaps most importantly, the Government must transition to implementing monthly closing procedures over its books and records and implement strict monitoring over the process with consequences for agencies that fall behind. Without implementing these changes, ACFR issuance will continue to be delayed and unpredictable.

As seen in **Exhibit 8**, the Government is behind on meeting many of these requirements, but with steadfast political will and leadership, the Oversight Board is convinced that these objectives can be reached, past due ACFRs can be issued within the next two years, and a system can be put in place that assures continued timely issuance as expected by the credit markets.

Progress on Requirement Number 2: Four Years of Budgets Developed with Modified Accrual Accounting Principles and Expenditures which have not Exceeded Revenues

Four Years of Developing Budgets in Line with Modified Accrual Accounting Standards

The Government is expected to develop and implement a budget in accordance with modified accrual accounting standards for four consecutive years, according to accounting practices recommended by the GASB for municipal financial statements, including by publishing ACFRs. There are numerous benefits of transitioning from cash accounting to modified accrual accounting. A modified accrual accounting method is more conservative since it requires recognition of revenues when measurable and promised payments when liabilities are incurred. Consequently, the books and records will present a more realistic picture of spending and help Puerto Rico avoid overspending and present an accurate financial picture to Government managers, taxpayers and other stakeholders. Furthermore, it would eliminate many one-time maneuvers and lead to genuinely balanced budgets once all the debt restructurings are consummated. The transition to modified accrual budgeting was one element that led to New York City's financial recovery in the 1970's, helping to establish stricter budgetary discipline on the City.

Four Years of Balanced Budgets According to Accrual Based Accounting Method

Before PROMESA, Puerto Rico had a history of overstating revenues and understating, misstating, or not stating all of its expenditures in a given year. This lack of budgetary control enabled budgets which appeared to be balanced consistent with the Puerto Rico Constitution's requirements, to cause deficits and force borrowing, and resulted in the situation the Government faces today.

The key principles that will need to be met for the Government to achieve this requirement are the formulation of an accrual based budget, better monitoring of revenue and expenses, integration of the payroll systems, maintenance of an accounts payable ledger, and registration of purchase orders and budgeting for all other funds, not just the General Fund. In accordance with the definition of territorial government in law, these principles will need to be met for all covered instrumentalities, unless the Oversight Board exempts a covered instrumentality from coverage under the requirement.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

To fully implement accrual budgeting, the Government would need to adopt policies and train employees to record expenses, make sure adjusting entries are communicated and coordinated across agencies, and shift to having accruals and interagency reconciliations automated. Furthermore, revenues and expenditures must be periodically reviewed against the forecast to respond to changes and there must be detailed resolution certifications and expense system registration. Additionally, payroll must be adequately tracked, controlled, and integrated. Accounts payable must be automated and follow clear procedures. Purchase orders and other encumbrances must be booked for the entire year, at the beginning of the year, and as many special revenue funds as possible must be eliminated.

The Government and other covered instrumentalities have unfortunately not yet demonstrated meaningful progress in many of the key requirements for the termination of the Oversight Board. As shown in **Exhibit 8**, rapid progress will be needed across a number of dimensions to meet the key requirements under PROMESA.

EXHIBIT 8: PROGRESS TOWARDS ACHIEVING KEY REQUIREMENTS FOR THE TERMINATION OF THE OVERSIGHT BOARD

Category	Details	● Not started	● Some Progress	● Completed	Current Progress
Complete Sustainable Debt Restructuring	Exchanged / New Debt	Exchanged / new bonds trading well in the public markets	●		●
	Muni bond market / buyers	Interest from traditional, institutional municipal bond buyers			●
	Investors	Evidence investors ready to invest in Puerto Rico again			●
	Debt Management Policy	<ul style="list-style-type: none"> Prepare a written debt management policy as required by the CW PoA Present the debt management policy to the Oversight Board for approval 			●
Timely Financial Reporting	Timeline and Action Plan	Provide detailed timeline and implementation plan for issuance financial statements			●
	Financial reporting division	Adequately position Hacienda's financial reporting division to oversee completion of all financial reporting, including component units			●
	Multiyear master audit contract	Secure multi-year contracts with auditors and other essential contractors in conformance with best practices			●
	Implement monthly closing procedures	<ul style="list-style-type: none"> Short-term: Implement / monitor a rigorous process for circular letters, administrative determinations, procedures, and regulations (manual closings) Medium-term: Implement ERP system (quarterly closing procedure) Longer-term: ERP system fully implemented (monthly closing procedures) 			●
	Strict monitoring and publish delays	Set up strict monitoring and escalation procedures with consequences and published schedules noting agency and component unit delays			●
Budgets in accordance with modified accrual accounting standards	Modified Accrual Budgeting	<ul style="list-style-type: none"> Adopt policies and train employees to book budget and book expenses Adjusting entries are communicated and coordinated across agencies Accruals and interagency reconciliations automated 			●
	Revenue / Expenses	<ul style="list-style-type: none"> Incorporate a periodic review of revenues and expenditures against the forecast to respond to changes Detailed resolution certifications and expense system registration 			●
	Payroll Systems	<ul style="list-style-type: none"> Appropriations for termination of payroll accruals Integrate systemwide payroll system into a financial reporting system 			●
	Accounts Payable	<ul style="list-style-type: none"> Maintain government wide monthly accounts payable procedures Automate process and journal entries 			●
	Purchase Orders	<ul style="list-style-type: none"> Book encumbrances for entire year when contract is approved Multi-year contract encumbered at the beginning of subsequent years 			●
	Other Funds	<ul style="list-style-type: none"> Consolidate as many special revenue funds into the General fund as possible; better maintained through annual General Fund appropriation procedures Track and record all expenses and standardize chart of accounts 			●
Implementing a balanced budget	Payroll spending	Connect time and expense to payroll systems			●
	Closing of books	<ul style="list-style-type: none"> Reconcile bank balances and monies held outside of the TSA Issue consistent systemwide guidance 			●
	Real time spending reports	<ul style="list-style-type: none"> Perform quarterly budget to actual review and forecast adjustment by senior leadership Issue public reporting and strategic guidance to stay within means 			●
	Visibility into all funds	<ul style="list-style-type: none"> Gain visibility into special revenue funds and federal funds Require reporting and sweep back unused general fund appropriations 			●
	Financial accounting systems	<ul style="list-style-type: none"> Integrate financial systems Ensure reporting is consistent across all agencies 			●

continue

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Fiscal Plans, Budgets, and Other Oversight Board Tools:

Under PROMESA, covered territorial instrumentalities/entities can be required by the Oversight Board to prepare and submit annual fiscal plans, who then reviews and either rejects or certifies them. The Oversight Board certifies fiscal plans and budgets to achieve PROMESA's goals to provide a method to achieve fiscal responsibility and access to the capital markets. The Oversight Board then tracks Government implementation of the fiscal plans to ensure compliance.

The certification and timely implementation of fiscal plans and balanced budgets are invaluable tools to achieve fiscal responsibility and restore Puerto Rico's access to the capital markets. Among other things, the certified fiscal plans and budget provide for estimates of revenues and expenditures in conformance with agreed accounting standards; funds essential public services; provides adequate funding for public pension systems; provides for the elimination of structural deficits; improves fiscal governance, accountability, and internal controls; and provides for capital expenditures and investments necessary to promote economic growth. Fiscal plans provide a route to direct the economy and finances of the Government of Puerto Rico towards economic growth and fiscal accountability. This is crucial for Puerto Rico to avoid repeating the mistakes of the past.

To ensure that covered entities deliver against fiscal plan measures, the Oversight Board has a variety of potential tools available, including: Setting Budgets; Budget and Fiscal Plan Compliance; Approval and Review of Contracts, Legislation, Executive Orders, Administrative Orders, Rules, and Regulations; Recommendations; Public Hearings; Implementation Tracking with Monthly and Quarterly Reporting; Working Group Meetings; Stakeholder Engagement; Policy Research and Data Analysis; and Publication of Documents.

Fiscal Plan – 2022

On January 27, 2022, the Oversight Board certified the New Fiscal Plan of the Commonwealth. **The 2022 Fiscal Plan are limited in scope and do not revisit the broad range of forecasts and assumptions included in the 2021 Fiscal Plan.** Specific updates include incorporating new information about the macroeconomic environment, increased federal funding for NAP, incorporating the impact of legislation passed by the Government of Puerto Rico expanding the EITC program, incremental Federal funding under the Infrastructure Investment and Jobs Act, and an increased Medicaid FMAP through early December 2021. The 2022 Fiscal Plan also incorporates terms of the confirmed PoA, detail on the use of funds from the Municipal Revenue Collection Center (CRIM, by its Spanish acronym), and on the status of "Pay-Go" payments. Finally, the Plan includes details on the LUMA transaction and costs related to the mobilization of certain previous PREPA employees to Commonwealth agencies as well as certain budgetary decisions and adjustments that were part of the FY2022 Budget.

The 2022 Fiscal Plan projects that ~\$84 billion of disaster relief funding in total, from federal and private sources, will be disbursed in the reconstruction effort over a period of 18 years (FY2018 to FY2035). It will be used for a mix of funding for individuals (e.g., reconstruction of houses, personal expenditures related to the hurricane such as clothing and supplies), funding for the public (e.g., reconstruction of major infrastructure, roads, and schools), and to cover part of the Commonwealth's share of the cost of disaster relief funding (recipients often must match some portion of federal public assistance spend).

Of the total, ~\$47 billion is estimated to come from the Federal Emergency Management Agency (FEMA) Disaster Relief Fund (DRF) for Public Assistance, Hazard Mitigation, Mission Assignments, and Individual Assistance. An estimated \$7 billion will come from private and business insurance payouts, and \$8 billion is related to other sources of federal funding.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The 2022 Fiscal Plan includes ~\$20 billion from the federal Housing and Urban Development (HUD) Community Development Block Grant - Disaster Recovery (CDBG-DR) program, of which ~\$2.7 billion is estimated to be allocated to offset the Commonwealth and its associated entities' expected FEMA-related cost-share requirements. This portion of CDBG-DR funding will go towards covering part of the ~10% cost-share burden on expenditures attributable to the Commonwealth, PREPA, PRASA, and HTA from FY2019 to FY2032. The 2022 Fiscal Plan allocates \$4.2 billion for Puerto Rico's cost-match responsibility. After the CDBG-DR funds, out-of-pocket cost-share is reduced to \$1.5 billion for Puerto Rico, of which \$1 billion is attributable to the Commonwealth.

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The IIJA bill allocates around \$2.3 billion federal funds to Puerto Rico with the purpose of improving the Island's infrastructure stock over FY2022-2026. These funds will support repairing and rebuilding roads and bridges; improving public transportation options; building a network of electric vehicle chargers; increasing broadband coverage; preparing infrastructure for climate change, cyber-attacks, and extreme weather events; improving water infrastructure; developing airport infrastructure; among other purposes. Incremental funding from the IIJA (accounting for prior Federal infrastructure support) is estimated to be around \$1.6 billion. The 2022 Fiscal Plan accounts for the impact of these incremental funds, which have a positive temporary impact on economy and growth due to the temporary nature of the funds.

Although Puerto Rico has a 55% statutory federal medical assistance percentage (FMAP) for most populations, the amount of annual federal funding for non-CHIP Medicaid expenditures received under Section 1108 is capped each year – meaning the Commonwealth is fully responsible for covering costs above this cap. Prior to recent CMS guidance, this cap was set at around \$400 million annually. While the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), this growth rate does not keep pace with the Island's projected healthcare expenditure growth.

Historically, the actual cap applied to Puerto Rico's Medicaid program varied based on a series of one-time legislative actions to increase funding to the Island's Medicaid program. Under a September 2021 CMS interpretation of Section 1108 of the Social Security Act, Puerto Rico is now permanently expected to receive a higher federal funding allotment cap (starting at \$2.943 billion in FFY2022). The growth rate remains pegged to the medical component of CPI-U. Each year, ~\$100 million of federal Section 1108 funds are allocated to the Department of Health to cover the eligible federal match on expenditures related to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations. That portion of federal funding is, therefore, considered unavailable for use on other Medicaid expenditures.

The 2022 Fiscal Plan ensures that the Commonwealth is appropriately funded to meet its matching obligations under current law. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that the amount of federal funds expected to become available during any future fiscal year changes, and, depending on the conditions imposed on the federal funds granted, the Oversight Board reserves the right to revise the projected General Fund appropriation for ASES appropriately.

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2022 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.).

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

Long-Term Macroeconomic, Revenue, and Expenditure Projections including PoA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico confirmed an amended PoA to restructure approximately \$35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than \$50 billion of pension liabilities. The PoA creates a foundation for Puerto Rico's recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year CBA which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of \$2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees. The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106-2017 Defined Contribution program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106-2017 accounts outside of Government control, and providing \$2,600 to the Act No. 106-2017 accounts of active Act No. 1 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

Risks to the long-term projections in the 2022 Fiscal Plan. While the 2022 Fiscal Plan projects that ~\$14.4 billion in surplus will be generated from FY2022-FY2048, there are several variables that have a material impact on the long-term financial projections. The extent to which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

10. RELATED PARTY TRANSACTIONS

MHAASA has the following transactions with governmental units:

- ◆ MHAASA paid to Puerto Rico Electric Power Authority the amount of \$2,220,325 for services provided during the fiscal year ended June 30, 2021.
- ◆ MHAASA paid to Puerto Rico Aqueduct and Sewer Authority the amount of \$1,190,119 during the fiscal year ended June 30, 2021.

continue

10. RELATED PARTY TRANSACTIONS – continuation

- ◆ MHAASA paid to Puerto Rico General Services Administration the amount of \$102,500 for gasoline, diesel, and motor vehicles maintenance services provided during the fiscal year ended June 30, 2021.

11. SUBSEQUENT EVENT

Management believes that the following events should be disclosed:

Covid-19 Pandemic

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 Commonwealth, as exceptions and dates for filing taxes were waived for more than 3 months. The economic damages to the Commonwealth 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.

As part of the measure to deal with the emergency caused by the COVID-19 pandemic, the Federal Government enacted the Coronavirus Act, Relief, and Economic Security Act (“CARES ACT”). The Statutes contains multiple sources of aid for citizens, businesses, as well as for state and territorial governments. Among the measures included in the CARES Act is the creation of the Coronavirus Relief Fund (“CFR”), which was funded by initial allocation of \$150 billion, from which the United States Treasury Department distributed approximately \$2.2 billion to the Puerto Rico Treasury Department in April 2020. The use of these funds was subject to various limitations such as to the strict use in necessary expenses related and incurred as part of the emergency caused by the pandemic, not previously budgeted as of March 27, 2020 (date of approval of the Act) and finally, such cost was to be incurred between March 2020 and December 2020. The MHAASA received \$3,951,643 related to these funds during the year ended June 30, 2021.

PROMESA

On January 18, 2022, the U.S. District Court for the District of Puerto Rico issued an order to confirm the Plan of Adjustment to restructure approximately \$35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employee Retirement System (ERS); and more than \$50 billion of pension liabilities. The Plan of Adjustment creates a foundation for Puerto Rico’s recovery and economic growth. It represents several years of engagement by the Oversight Board, creditor groups, and the Government of Puerto Rico. It provides one-time cash payments, the issuance of new debt and contingent value instruments (CVIs), among other things. In addition, the PoA provides certain Commonwealth employees with various benefits. For instance, AFSCME, who voted to support the PoA, will receive a new 5-year Collective Bargaining Agreement (CBA), which provides a number of contractual protections including healthcare, vacation and sick accruals, and specific actions that must be taken prior to any implementation of layoffs. AFSCME represented employees will also be eligible to participate in Fiscal Plan outperformance, with a guaranteed minimum bonus of \$2,000 annually for the term of the 5-year CBA. The PoA also includes provisions to protect current and future retirees by creating a fiscally sustainable retirement system that freezes TRS and JRS pensions and establishing a pension reserve trust to provide increased confidence that future funding will be available to meet the promises made to retirees.

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11. SUBSEQUENT EVENT – continuation

The PoA provides for a more diverse retirement income by ensuring all Government employees are participating in the Act No. 106 Defined Contribution Program, enrolling teachers and judges in United States Social Security, restoring the System 2000 contributions made by employees to the individually owned Act No. 106 accounts outside of Government control, and providing \$2,600 to the Act No. 106 accounts of active Act No. 1-1990 / Act No. 447-1952 employees. For additional details on specific provisions included in the confirmed PoA, refer to the sixth modified eighth amended PoA for the Commonwealth of Puerto Rico.

2022 Fiscal Plan for Puerto Rico

In accordance with the provisions described on Note 9 to the financial statement, the Oversight Board approved on January 27, 2022 the Fiscal Plan as prepared by the Oversight Board and not the Commonwealth submitted plan. The scope of the Fiscal Plan is described in that Note.

The MHAASA has evaluated subsequent events through August 15, 2022, the date which the financial statements were available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statements or its notes.

END OF NOTES

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PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE**

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**COMMONWEALTH OF PUERTO RICO
MENTAL HEALTH AND ANTI-ADDICTION SERVICES ADMINISTRATION**

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. Department of Housing and Urban Development Program:				
Direct Program:				
Continuum of Care Program	14.267		\$ -	\$ 1,739,370
<i>Total U.S. Department of Housing and Urban Development Program</i>			-	<u>1,739,370</u>
U.S. Department of Justice Programs:				
Harold Rogers Prescription Drug Monitoring Program	16.754		-	110,386
Second Chance Act Reentry Initiative	16.812		-	43,323
<i>Total U.S. Department of the Justice Programs</i>			-	<u>153,709</u>
U.S. Department of Transportation Program:				
Pass-Through the Puerto Rico Traffic Safety Commission:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	21-01-67	-	9,448
<i>Total U.S. Department of the Transportation Program</i>			-	<u>9,448</u>
U.S. Department of Treasury Program:				
Pass-Through the Puerto Rico Office of Management and Budget (OMB):				
Coronavirus Relief Fund	21.019	N/AV	-	4,484,160
<i>Total U.S. Department of Treasury Program</i>			-	<u>4,484,160</u>
U.S. Department of Health and Human Services Programs:				
Direct Programs:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		-	403,012
Projects for Assistance in Transition from Homelessness (PATH)	93.150		-	891,874
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		2,040,173	4,577,415
COVID-19 - Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665		-	329,516
Opioid STR	93.788		-	2,454,943
Block Grants for Community Mental Health Services	93.958		-	7,765,533
COVID-19 - Block Grants for Community Mental Health Services	93.958		-	26,204
<i>Subtotal Block Grants for Community Mental Health Services</i>			-	<u>7,791,737</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959		-	21,198,967
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse	93.959		-	7,842
<i>Subtotal Block Grants for Prevention and Treatment of Substance Abuse</i>			-	<u>21,206,809</u>
Mental Health Disaster Assistance and Emergency Mental Health	93.982		-	12,310,776
Assisted Outpatient Treatment	93.997		-	263,323
<i>Total U.S. Department of Health and Human Services Programs</i>			2,040,173	<u>50,229,405</u>

continue

COMMONWEALTH OF PUERTO RICO
MENTAL HEALTH AND ANTI-ADDICTION SERVICES ADMINISTRATION

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Assistance Listing Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Total Federal Expenditures</i>
U.S. Department of Homeland Security Program:				
Pass-Through the Puerto Rico Central Office of Recovery, Reconstruction and Resiliency (COR3):				
Crisis Counseling	97.032	000-URRQ8-00	-	2,597,371
<i>Total U.S. Department of Homeland Security Program</i>			-	2,597,371
<i>Total Expenditures of Federal Awards</i>			\$ 2,040,173	\$ 59,213,463

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activities of the Mental Health and Anti-Addiction Services Administration (MHAASA). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the MHAASA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the MHAASA.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. MHAASA reporting entity is defined in Note (1) (A) to the financial statement. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.
- D. The MHAASA has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

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

4. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

5. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES – GOVERNMENTAL FUNDS

Expenditures of Federal awards, including pass-through funds to subrecipients, are reported in MHAASA's Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Federal Grants Fund column.

6. LATENESS OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2021, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. On March 19, 2021, the OMB issued the M-21-20, stated that: "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, 2021, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR §200.501 to six months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a) and 2 CFR § 200.501.

END OF NOTES



“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

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

**To the Administrator of the
Mental Health and Anti-Addiction Services Administration
PO Box 607087
Bayamón, Puerto Rico 00960-7087**

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 statement of the **Mental Health and Anti-Addiction Services Administration (MHAASA)**, for the fiscal year ended June 30, 2021, and the related notes to the financial statement, which collectively comprise the **MHAASA**’s financial statement, and have issued our report thereon dated August 15, 2022.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **MHAASA**’s financial statement will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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

**To the Administrator of the
Mental Health and Anti-Addiction Services Administration**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **MHAASA's** financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 **MHAASA's** internal control or on compliance. This report is an integral part of an audit reformed 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.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 15, 2022

Stamp No. E491027 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.



“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Administrator of the
Mental Health and Anti-Addiction Services Administration
PO Box 607087
Bayamón, Puerto Rico 00960-7087

Report on Compliance for Each Major Federal Program

We have audited **Mental Health and Anti-Addiction Services Administration (MHAASA)**’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **MHAASA**’s major federal programs for the fiscal year ended June 30, 2021. The **MHAASA**’s major federal programs are identified in the Summary of Auditors’ Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the **MHAASA**’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 Principles, 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 **MHAASA**’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 **MHAASA**’s compliance.

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

To the Administrator of the
Mental Health and Anti-Addiction Services Administration

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Opinion on Each Major Federal Programs

In our opinion, the **MHAASA** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal programs for the fiscal year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-002. Our opinion on each major Federal program is not modified with respect to this matter.

MHAASA's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **MHAASA's** responses 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 **MHAASA** 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 **MHAASA'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 **MHAASA's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-002 to be significant deficiency.

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

**To the Administrator of the
Mental Health and Anti-Addiction Services Administration**

Page 2

MHAASA's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **MHAASA'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2022

Caguas, Puerto Rico
August 15, 2022

Stamp No. E491028 of the Puerto Rico Society of Certified
Public Accountants was affixed to the original report.

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PART III
FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued on whether the Financial Statement audited were prepared in accordance with special reporting framework:

- Unmodified Opinions
 Modified: Qualified Opinion
 Adverse Opinion
 Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
 - Significant deficiency (ies) identified? Yes None Reported
- Noncompliance material to financial statement noted? Yes No

Federal Awards

Internal control over Major Federal Programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditors’ report issued on compliance for Major Federal Programs:

- Unmodified Opinion
 Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

- Yes No

Identification of Major Federal Programs:

ASSISTANCE LISTING NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.267	Continuum of Care Program
21.019	Coronavirus Relief Fund
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.959	COVID-19 – Block Grants for Prevention and Treatment of Substance Abuse
93.150	Projects for Assistance in Transition from Homelessness (PATH)

Dollar threshold used to distinguish between Type A and Type B Programs:

\$1,776,404

Auditee qualified as low-risk auditee?

- Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit disclosed no findings that are required to be reported herein under the *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-001
FEDERAL PROGRAM	BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE COVID-19 – BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE (ASSISTANCE LISTING NUMBER 93.959) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
AWARD NUMBER	19BIPRSAPT
COMPLIANCE REQUIREMENT	LEVEL OF EFFORT – MAINTENANCE OF EFFORT (MOE)
TYPE OF FINDING	SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE
CRITERIA OR SPECIFIC REQUIREMENT	The 45 CFR Section 96.134 (a) requires that the principal agency of a State carrying out authorized activities for the grant to maintain compliance with a prescribe level of effort. The state agency (MHAASA) shall for each fiscal year maintain aggregate state funds expenditures for authorized activities at a level that is not less than the average level of such expenditures maintained by the state funds for the two-year period preceding the fiscal year for which the State is applying for the Federal grant. The Block Grant shall not be used to supplant State funding of alcohol and other drug prevention and treatment programs.
CONDITION	During our audit procedures over internal control and compliance for the Maintenance of Effort requirement, we noted that the aggregate expenditures for the fiscal year under audit were less than the average level of such expenditures maintained by the State for the two fiscal years preceding our audit year.
QUESTIONED COSTS	None
CONTEXT	This is a new finding and represents a systematic problem per our evaluation. Fiscal crisis in Puerto Rico has made it very difficult for MHAASA to comply with the required level of state funds expenditures. MHAASA did not provide evidence of requesting a waiver for fiscal year 2020-2021, instead, MHAASA provided evidence of the follow up of documentation providing material compliance to Substance Abuse and Mental Health Services Administration for fiscal year 2016.
EFFECT	MHAASA could receive a decrease of Federal funds if the required MOE amount is not met.
CAUSE	MHAASA , is an agency of the Commonwealth of Puerto Rico, and the budget is appropriated by the Legislature and the Fiscal Oversight Management Board. Funds appropriated to MHAASA have been decreasing for the last two fiscal years as result of the fiscal expenditure controls establish by the FOMB as part of the Commonwealth approved bankruptcy procedures; in addition, the Medicaid funds appropriated to Puerto Rico for the last two years, have also been decreasing.
IDENTIFICATION AS A REPEAT FINDING	Not applicable.
RECOMMENDATION	We recommend that a yearly waiver request must be sent to Substance Abuse and Mental Health Services Administration officers along with a quarterly reminder so that their request can be discussed with urgency.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-001 – continuation

**VIEWS OF RESPONSIBLE
OFFICIALS AND PLANNED
CORRECTIVE ACTION**

MHAASA will request a waiver for women expenditures requirements, on a timely basis, when the MOE is not accomplished. Evidence of this action will be retained in our records and follow up will be given to SAMHSA.

IMPLEMENTATION DATE

August 12, 2022

RESPONSIBLE PERSONS

Dr. Irene Meléndez, SAPTBG Coordinator
Dr. Luis A. Pedraza-González, Director of the Office of Federal Programs and Planning (OFPP)

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2021-002
FEDERAL PROGRAM	BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE COVID-19 – BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE (ASSISTANCE LISTING NUMBER 93.959) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
AWARD NUMBER	19BIPRSAPT
COMPLIANCE REQUIREMENT	LEVEL OF EFFORT – MAINTENANCE OF EFFORT (MOE)
TYPE OF FINDING	SIGNIFICANT DEFICIENCY AND NONCOMPLIANCE
CRITERIA OR SPECIFIC REQUIREMENT	The 45 CFR Section 96.124 (c) states that Subject to paragraph (d) of this section, a State is required to expend the Block Grant on women services as follows: (3) For grants beyond fiscal year 1994, the States shall expend no less than an amount equal to the amount expended by the State for fiscal year 1994. In addition, in Section (d) states that upon the request of a State, the Secretary may waive all or part of the requirement in paragraph (c) of this section if the Secretary determines that the State is providing an adequate level of services for this population. In determining whether an adequate level of services is being provided the Secretary will review the extent to which such individuals are receiving services. This determination may be supported by a combination of criminal justice data, the National Drug and Treatment Units Survey, statewide needs assessment data, waiting list data, welfare department data, including Medicaid expenditures, or other State statistical data that are systematically collected. The Secretary will also consider the extent to which the State offers the minimum services required under § 96.124 (e). The Secretary shall approve or deny a request for a waiver not later than 120 days after the date on which the request is made. Any waiver provided by the Secretary shall be applicable only to the fiscal year involved.
CONDITION	During our audit procedures over internal control and compliance for the Maintenance of Effort requirement, we noted that the expenditures incurred were less than the calculated fiscal year 1994 base amount. No evidence was provided in relation to requesting a waiver for the fiscal year 2020-2021.
QUESTIONED COSTS	None
CONTEXT	This is a new finding and represents a systematic problem per our evaluation. Population decreases and fiscal crisis in Puerto Rico has made it very difficult for MHAASA to comply with the required expenditures amount. MHAASA should request this waiver annually as provided in the regulation.
EFFECT	MHAASA could receive a decrease of Federal funds if the required MOE amount is not met.
CAUSE	MHAASA , is an agency of the Commonwealth of Puerto Rico, and the budget is appropriated by the Legislature and the Fiscal Oversight Management Board. Funds appropriated to MHAASA have been decreasing for the last two fiscal years. In addition, MHAASA did not requested a wavier as provided in the regulation, for the fiscal year 2020-2021.
IDENTIFICATION AS A REPEAT FINDING	Not applicable.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2021-002 – continuation

RECOMMENDATION We recommend **MHAASA** to request, on a timely basis, a waiver if they understand that the MOE will not be accomplished and retain evidence of the request and subsequent follow up with the Substance Abuse and Mental Health Services Administration.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION MHAASA will request a waiver for women expenditures requirements, on a timely basis, when the MOE is not accomplished. Evidence of this action will be retained in our records and follow up will be given to SAMHSA.

IMPLEMENTATION DATE August 31, 2022

RESPONSIBLE PERSONS Dr. Irene Meléndez, SAPTBG Coordinator
Dr. Luis A. Pedraza-González, Director of the Office of Federal Programs and Planning (OFPP)

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

NONE

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE



Puerto Rico Mental Health and Anti-Addiction Services Administration (PR-MHAASA)

**SINGLE AUDIT - STATE FISCAL YEAR 2021
CORRECTIVE ACTION PLAN**

Award Number: 19BIPRSAPT

Finding Reference Number: 2021-001	
Compliance Section - Requirement	Level of effort - Maintenance of effort (MOE)
Criteria or specific Requirement	The 45 CFR section 96.134 (a) requires that the principal agency of a State carrying out authorized activities for the grant to maintain compliance with a prescribe level of effort. The state agency (MHAASA) shall for each fiscal year maintain aggregate state funds expenditures for authorized activities at a level that is not less than the average level of such expenditures maintained by the state funds for the two-year period preceding the fiscal year for which the State is applying for the federal grant. The Block Grant shall not be used to supplant State funding of alcohol and other drug prevention and treatment programs.
Auditor's Description/Condition	<p>During our audit procedures over internal control and compliance for the Maintenance of Effort requirement, we noted that the aggregate expenditures for the fiscal year under audit were less than the average level of such expenditures maintained by the State for the two fiscal years preceding our audit year.</p> <p>Context - This is a new finding and represents a systematic problem per our evaluation. Population decreases and fiscal crisis in Puerto Rico has made it very difficult for MHAASA to comply with the required expenditures amount. MHAASA did not provide evidence of requesting a waiver for fiscal year 2020-2021, instead, MHAASA provided evidence of follow up of a waiver for fiscal year 2016. MHAASA should request this waiver annually as provided in the regulation.</p>
Auditor's Recommendation	We recommend that a yearly waiver request must be sent to Substance Abuse and Mental Health Services Administration officers along with a quarterly reminder so that their request can be discussed with urgency.
MHAASA's Corrective Plan	
Corrective Action	This finding has been already attended by the MHAASA. A waiver request for the SAPTBG MOE was sent on August 12, 2022 to SAMHSA for FY2021.
Lead Persons Accountable for Action Item Completion	Dr. Irene Meléndez, SAPTBG Coordinator Dr. Luis A. Pedraza-González, Director of the Office of Federal Programs and Planning (OFPP)
Deliverable	Waiver requested as needed and required.
Evidence included (YES/NO)	Yes (See attached document)
Target completion date	August 12, 2022

Finding Reference Number: 2021-002	
Compliance Section - Requirement	Level of effort - Maintenance of effort (MOE)
Criteria or specific Requirement	The 45 CFR section 96.124 (c) states that Subject to paragraph (d) of this section, a State is required to expend the Block Grant on women services as follows: (3) For grants beyond fiscal year 1994, the States shall expend no less than an amount equal to the amount expended by the State for fiscal year 1994. In addition, in Section (d) states that upon the request of a State, the Secretary may waive all or part of the requirement in paragraph (c) of this section if the Secretary determines that the State is providing an adequate level of services for this population. In determining whether an adequate level of services is being provided the Secretary will review the extent to which such individuals are receiving services. This determination may be supported by a combination of criminal justice data, the National Drug and Treatment Units Survey, state-wide needs assessment data, waiting list data, welfare department data, including Medicaid expenditures, or other State statistical data that are systematically collected. The Secretary will also consider the extent to which the State offers the minimum services required under § 96.124(e). The Secretary shall approve or deny a request for a waiver not later than 120 days after the date on which the request is made. Any waiver provided by the Secretary shall be applicable only to the fiscal year involved.
Auditor's Description/Condition	During our audit procedures over internal control and compliance for the Maintenance of Effort requirement, we noted that the expenditures incurred were less than the calculated fiscal year 1994 base amount. No evidence was provided in relation to requesting a waiver for the fiscal year 2020-2021.
Auditor's Recommendation	We recommend MHAASA to request, on a timely basis, a waiver if they understand that the MOE will not be accomplished and retain evidence of the request and subsequent follow up with the Substance Abuse and Mental Health Services Administration.
MHAASA's Corrective Plan	
Corrective Action	MHAASA will request a waiver for women expenditures requirements, on a timely basis, when the MOE is not accomplished. Evidence of this action will be retained in our records and follow up will be given to SAMHSA.
Lead Persons Accountable for Action Item Completion	Dr. Irene Meléndez, SAPTBG Coordinator Dr. Luis A. Pedraza-González, Director of the Office of Federal Programs and Planning
Deliverable	Waiver requested as needed and required.
Evidence included (YES/NO)	NO
Target completion date	August 31, 2022

Rosa M. Figueroa Morales, BA, MBA
Auxiliary Administration of Managerial Services

8/12/2022
Date





GOBIERNO DE PUERTO RICO
ADMINISTRACIÓN DE SERVICIOS DE SALUD MENTAL Y CONTRA LA ADICCIÓN

August 11, 2022

Dr. Miriam Delphin-Rittmon
Assistant Secretary for Mental Health and Substance Use
Substance Abuse and Mental Health Services Administration (SAMHSA)
5600 Fishers Lane
Rockville, Maryland 20857

Dear Dr. Delphin-Rittmon:

The Puerto Rico Mental Health Services Administration (PR-MHAASA) hereby submits this letter to amend the February 9, 2022 letter requesting a waiver from the MOE requirement for the SAPTBG, and extend the request to include activity for both FY2020 and FY2021.

Puerto Rico is out of compliance with the requirement for MOE under the Substance Abuse Prevention and Treatment Block Grant (SAPTBG) for fiscal years 2020 and 2021. This issue has remained unresolved for more than a year after the submission of the relevant reports, and we understand that 42 U.S.C. Chapter 6A, Subchapter XVII, Part B, Paragraph 390x-4 (b) (4) (A) (i) requires that a determination be made that the MOE requirement was materially complied with in the prior year before making a new award. To resolve this issue, we are herein submitting the information that we have gathered regarding MOE, dating from 2014 when Puerto Rico became the first state or territory of the United States to declare bankruptcy due to its inability to meet demands of creditors. Since Puerto Rico entered bankruptcy, its economic crisis has only been further deepened by the effects of Category IV Hurricanes Irma and Maria in September of 2017, a series of major earthquakes devastating primarily southern and western regions of the Island, and the more recent coronavirus (COVID-19) pandemic.

As you are aware, the Mental Health and Anti-Addiction Services Administration (MHAASA) of Puerto Rico is the Single State Agency (SSA) responsible for the submission of the SAPTBG Plans and Reports to SAMHSA, including data for MOE. In 2016, in coordination with the Project Officers of CMHS/CSAT/CSAP of SAMHSA and the Office of the Assistant Administrator for Mental Health and Substance Use of SAMHSA at that time, the MHAASA submitted a request for material compliance with extensive documentation evidencing said compliance. Despite follow-up over the past five years with the changing staff of SAMHSA, and through the changing administrations of the MHAASA, **we have never received a reply to this request.** Jessica Hartman, PO for the SABG for Puerto Rico was also requested to give follow up to this request, and informed that she had done so, without a reply.

The Federal Programs and Planning Office of the MHAASA has maintained close communication with the Project Officers of SAMHSA over the years and in the 2021 reporting period to address the issue of MOE since Puerto Rico has remained in noncompliance. This is due to the circumstances indicated above, the fact that the MHAASA has suffered budget cuts of approximately \$15 million per year, and the fact that the state funds from other agencies used in the calculations of MOE have also been reduced, including the Health Insurance Administration (HIA) that administers Medicaid and Medicare funding. HIA state funds for mental health and substance abuse treatment, based on a formula of approximately 60% state to 40% Federal funds, were combined with the total state funding of the MHAASA over the years to meet MOE. However, based on the Public Health Emergency declared in recent years, Congress approved, in 2020-21, an 82.2% federal funding for Medicaid services for Puerto Rico, leaving lesser state funds of the HIA for the MOE calculations. This temporary Congressional benefit was altered in 2021, with the current formula being 76% federal versus 24% state funds, with a projection for October of 2022 of a further reduction to only 68.5% in federal Medicaid funding. While this will leave slightly more state expenditures for services, it is still insufficient to meet MOE requirements.

As per applicable federal regulations, the requirements for a waiver from MOE under normal circumstances include a 1.5% increase in unemployment rates or a decrease in tax revenue over the past two years. However, based on official data from the PR government, the data obtained does not substantiate the necessary high unemployment rates or reduction in tax revenue that would permit consideration for a waiver from the MOE requirement. Unemployment rates increased from 2019 to 2020 from 8.30% to 11.17% but reduced again to 8.2% in 2021, based on PR Department of Labor statistics. It is important to note that Labor Force Participation reduced from 40.3% in 2020 to 39.9% in 2021, affecting unemployment rates since only those persons actively seeking employment and registered for unemployment benefits are considered in official unemployment figures.

On the other hand, tax revenues of Puerto Rico reduced from 3.46 trillion dollars in 2019 to 3.42 trillion in 2020, but increased to 4.05 trillion in 2021, according to PR Treasury Department data. It is important to note that said revenue figures are directly impacted by extraordinary Congressional allotments of federal funding directly granted to the eligible populations of citizens and businesses of Puerto Rico in the referenced years due to the impact of natural disasters and the COVID-19 Pandemic.

Based on the data that we have been able to gather, the MHAASA has made the determination to submit a request for a **Public Health Emergency Waiver** to be determined under Section 319 of the Public Health Service Act which authorizes the secretary of the HHS to make a determination that a public health emergency exists if the secretary determines that a disease or disorder presents a public health emergency or that a public health emergency—including significant outbreaks of infectious diseases or bioterrorist attacks—otherwise exists. In addition, said Section 319 Public Health Emergency Waiver permits SAMHSA to also “consider requests from states who do not meet the extraordinary economic conditions waiver requirements under 45 CFR 96.134(b). This process will be based on SAMHSA’s public health emergency (COVID-19) waiver authority under section 1957 of the Public Health Service Act (42 USC 300x-67), which provides in pertinent part: In the case of a public health emergency (as



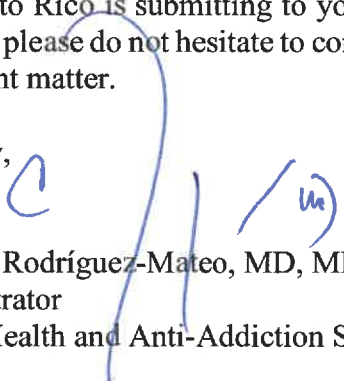
determined under section 319), the Secretary, on a State-by-State basis, may, as the circumstances of the emergency reasonably require and for the period of the emergency, grant an extension, or waive application deadlines or compliance with any other requirement, of a grant authorized under sections 1911, or 1921.”

The COVID-19 Pandemic in Puerto Rico exacerbated health and economic conditions that were already affected by natural disasters that had occurred in the Island in prior years, starting with the Zika epidemic of 2016, Category IV hurricanes Maria and Irma in September of 2017, which devastated the entire Island, and followed by major, and recurring, earthquakes, primarily in the Southern and Western regions, all of which resulted in declarations of Public Health Emergencies for the territory. More than 3,000 persons lost their lives in the hurricanes of 2017, with caused an estimated \$20 billion dollars in economic loss to the Island, according to the US Center for Disaster Philanthropy. The economic impact of the earthquake event is estimated at an additional loss of \$3.1 billion. While Puerto Rico is expected to receive up to \$13 billion in COVID related federal funding to offset the impact of the pandemic, thousands of jobs have been lost, and both government and private agencies, as well as the already weakened economy of the Island, have been severely affected. As of January 17, 2021, a total of 452,531 cases of COVID-19 had been reported in Puerto Rico with 3,542 deaths, the rate of contagion currently at 36%.

Nationwide, including Puerto Rico, based on the impact of the pandemic, on January 14, 2022, Xavier Becerra, Secretary of Health and Human Services issued a **Renewal of Determination that a Public Health Emergency Exists**, stating: “As a result of the continued consequences of the Coronavirus Disease 2019 (COVID-19) pandemic, on this date and after consultation with public health officials as necessary, I, Xavier Becerra, Secretary of Health and Human Services, pursuant to the authority vested in me under section 319 of the Public Health Service Act, do hereby renew, effective January 16, 2022, the January 31, 2020, determination by former Secretary Alex M. Azar II, that he previously renewed on April 21, 2020, July 23, 2020, October 2, 2020, and January 7, 2021, and that I renewed on April 15, 2021, July 20, 2021, and October 18, 2021 that a public health emergency exists and has existed since January 27, 2020, nationwide.”

Based on this declaration, impact and the resulting circumstances of the coronavirus pandemic, and the cumulative consequences from prior natural disasters and economic crisis, there is a Public Health Emergency in Puerto Rico that constitutes the basis for this petition of waiver from the MOE requirement for FY2020 and FY2021 under the SABG that Puerto Rico is submitting to you for consideration. If further information or data is required, please do not hesitate to contact me. We appreciate your assistance in addressing this urgent matter.

Sincerely,


Carlos J. Rodríguez-Mateo, MD, MPH
Administrator
Mental Health and Anti-Addiction Services Administration of Puerto Rico

Attachment

