Puerto Rico Health Insurance Administration

(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements and Compliance Audit of Federal Financial Assistance for the Fiscal Year Ended June 30, 2021

TABLE OF CONTENTS

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the *Puerto Rico Health Insurance Administration* (the Administration), a component unit of the Commonwealth of Puerto Rico (the Commonwealth), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *the Puerto Rico Health Insurance Administration* as of June 30, 2021, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and required supplementary information by GASB statements No. 73 and 75 on pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of the Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Carolina, Puerto Rico
October 31, 2022

Aquino, De Córdova, Alfaro & Co., LLP

Stamp number E513220
of Puerto Rico CPA Society
has been affixed to the
original report

This section of the financial statements is classified by the Governmental Accounting Standards Board (GASB) as required supplementary information. Management of the Puerto Rico Health Insurance Administration (the Administration or PRHIA) provides this Management Discussion and Analysis for the benefit of readers of the Administration's financial statements. Along with the financial statements and related notes, management's discussion and analysis should provide the most relevant information regarding the financial condition of the Administration for the fiscal year ended June 30, 2021.

Overview of the Financial Statements

This report includes the management's discussion and analysis, the independent auditor's report, and the basic financial statements and related Notes to the Financial Statements. The management's discussion and analysis focus on major components of the financial statements. The financial statements are designed to provide users with a broad overview of the Administration's finance with the intention to help answer the question whether the Administration is better off or worse off financially as a result of this year's activities. These financial statements are prepared under the accrual basis of accounting.

The Statements of Net Position present information of the Administration's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position, along with other financial information, serve as a useful indicator of the Administration's financial position and whether it is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information showing how the Administration's net position changed during the fiscal year ended June 30, 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Therefore, revenues and expenses are reported in this statement for certain items that will result in cash flows in future fiscal periods.

The Statements of Cash Flows shows how the Administration's cash and cash equivalents increased or decreased during the fiscal years reported. It also shows how cash and cash equivalents were provided by and used in the Administration's operating, non-operating and financing, and investing activities. The net increase or decrease in the Administration's cash and cash equivalents is added to the balance at the beginning of year to arrive at cash and cash equivalents balance at end of year. This statement is presented on a cash basis and only presents cash receipts and cash disbursement information. The Administration uses the direct method of presenting cash flows, which includes a reconciliation of operating income to net cash provided by operating activities.

The notes to the financial statements provide additional information that is essential for a thorough understanding of the financial data presented in the financial statements.

These statements and information represent the actual financial condition of the Administration. Following, you will find a condensed discussion of these statements and notes.

Financial Highlights

For the fiscal year ended June 30, 2021, the Administration reported a net position of approximately $408.7 million, from $390 million in prior year. The increase in net position was primarily driven by the contributions from the Commonwealth. The condensed Statements of Net Position of the Administration as of June 30, 2021 and 2020 was:

	June 30, 2021	June 30, 2020	Change In dollars	Change Percentage
Current assets	$ 1,083,257,567	$ 965,048,441	$ 118,209,126	12%
Non-current assets	53,519,490	43,051,557	10,467,933	24%
Deferred outflows related to pension plan	1,565,928	821,396	744,532	91%
Total assets and deferred outflows of resources	$ 1,138,342,985	$ 1,008,921,394	$ 129,421,591	13%
Current liabilities	$ 608,304,854	$ 487,155,172	$ 121,149,682	25%
Non-current liabilities	121,109,121	131,564,126	(10,455,005)	-8%
Deferred inflows related to pension plan	262,623	340,187	(77,564)	-23%
Total liabilities and deferred inflows of resources	$ 729,676,598	$ 619,059,485	$ 110,617,113	18%
Net position:				
Net investment in capital assets	$ 441,240	$ 545,861	$ (104,621)	-19%
Net position	408,225,147	389,316,048	18,909,099	5%
Total net position	$ 408,666,387	$ 389,861,909	$ 18,804,478	5%
Total liabilities, deferred inflows of resources and net position	$ 1,138,342,985	$ 1,008,921,394	$ 129,421,591	13%

As of June 30, 2021, the Administration reported total assets and deferred outflows of resources of approximately $1,138 million, an increase of approximately $129 million or 13% from prior year. Increase in total assets was mainly due to an increase in receivable from federal grants ($114 million), pharmacy rebates ($30 million) and from the Puerto Rico Office of Management and Budget ($23 million).

For the same period, total liabilities and deferred inflows of resources were $729.7 million, an increase of $110.6 million from the prior year. Increase in total liabilities was primarily due to increases in accounts payable for premiums and claims ($36 million), TPA administration fees ($61 million) and accrued interest ($11 million).

The Administration's net investment in capital assets as of June 30, 2021 to $441,240, net of accumulated depreciation. Capital assets include equipment, furniture, leasehold improvements, and vehicles. During the fiscal years ended June 30, 2021, the Administration invested $297,249 in capital assets. Depreciation and amortization expense for the year ended June 30, 2021 amounted to $401,870.

The condensed Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended June 30, 2021 and 2020 are summarized as follows:

	June 30, 2021	June 30, 2020	Change In dollars	Percentage
Operating revenues:				
Contributions from:				
Federal grants	$ 2,999,633,483	$ 2,469,776,590	$ 529,856,893	21%
Commonwealth of Puerto Rico	339,364,001	360,500,000	(21,135,999)	-6%
Municipalities	63,831,156	119,690,525	(55,859,369)	-47%
Employers	14,251,206	17,572,204	(3,320,998)	-19%
Pharmacy rebate program-net	255,966,739	229,691,916	26,274,823	11%
Fines	-	30,000	(30,000)	-100%
Bad debts expense	(11,860,507)	(92,765,897)	80,905,390	-87%
	3,661,186,078	3,104,495,338	556,690,740	18%
Operating expenses:				
Medical premiums and claims	3,625,691,537	2,887,428,097	738,263,440	26%
General and administrative	21,422,233	42,590,171	(21,167,938)	-50%
Depreciation and amortization	401,870	925,070	(523,200)	-57%
Total operating expenses	3,647,515,640	2,930,943,338	716,572,302	24%
Non-operating revenues and expenses - net	5,134,040	14,340,572	(9,206,532)	-64%
Change in net position	18,804,478	187,892,572	(169,088,094)	-90%
Net position at beginning of year	389,861,909	201,969,337	187,892,572	93%
Net position, end of year	$ 408,666,387	$ 389,861,909	$ 18,804,478	5%

For the year ended June 30, 2021, the Administration reported operating revenues of approximately $3.66 billion, an increase of approximately $557 million from prior year. The increase was mainly due to increases in federal grants of approximately $530 million while bad debts expense decreased by approximately $80 million. Operating expenses were approximately $3.6 billion, an increase of approximately $716.6 million. The increase in operating expenses was mainly as a result of an increase of medical premiums and claims expense. Net non-operating revenues and expenses decreased by approximately $10.3 million primarily due to the decrease in non-operating revenues from legislative appropriations and interest income of approximately $7 million and $3 million, respectively.

Administration Overview

The Puerto Rico Health Insurance Administration is a public corporation of the Commonwealth of Puerto Rico, created by Act No. 72 on September 7, 1993, as amended. The Administration began operations on February 1, 1994 and is responsible for implementing, administering, and negotiating a health insurance program, through contracts with health insurers, mental behavioral health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The purpose of the Administration is to provide access to quality medical and hospital care to eligible Puerto Rico residents.

The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Single State Medicaid Agency is the Puerto Rico Department of Health (the Department of Health).

The Medicaid Program is responsible for administering to the Government Health Insurance Program of federal (those federally eligible for Medicaid) and Commonwealth beneficiaries (those non-eligible for federal Medicaid but who fall within the criteria set forth by Government of Puerto Rico for inclusion within the Government Health Insurance Program).

The Administration and the Medicaid Program have a Memorandum of Understanding in which Medicaid Program delegates full responsibility to the Administration for implementing and administering the Government Health Insurance Program. Among the responsibilities, the Administration is responsible for establishing health coverage for qualified Puerto Rico residents in accordance with the Puerto Rico Medicaid State Plan and negotiating with health insurance organizations for the provision of such covered services, among other.

The executive offices of the Administration are located at 1571 Alda Street, Urb. Caribe, Rio Piedras, Puerto Rico 00926-2712. The Administration's telephone number is (787) 474-3300. Mr. Jorge Galva, Esq. was the Executive Director of the Administration for the year ended June 30, 2021. Effective May 16, 2022, Ms. Edna Y. Marin, MA was appointed as Executive Director of the Administration.

Background of Past and Current Healthcare Models

On October 1, 2010, the Commonwealth implemented "Mi Salud" plan, which replaced the "Health Reform" program. On October 14, 2014, the Board of Directors of the PRHIA awarded new contracts for the GHP, which replaced the former "Mi Salud" plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth public health insurance model changed from a Third-Party Administrator (TPA) model, in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a managed care organization (MCO) model, in which the Administration will pay the MCOs a fixed Per Member Per Month (PMPM) premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

Bipartisan Budget Act of 2018

On January 3, 2018, the United States Congress enacted the Bipartisan Budget Act of 2018 and its Act's Division – Supplemental Appropriations, Tax Relief, and Medicaid Changes Relating to Certain Disasters and Further Extension of Continuing Appropriations, (collectively, the "Act"), that was signed into law by President Donald Trump on February 9, 2018. The passage of the Act, through its Titles III, section 20301, Hurricane Maria Relief for Puerto Rico, and the Virgin Islands Medicaid Programs, has resulted in health care expanded funding by providing increased caps for the period beginning January 1, 2018, and ending September 30, 2019. The amount of the increase for Puerto Rico was $3.6 billion.

The Act also included a further increase of $1.2 billion if the Secretary certifies that Puerto Rico has taken reasonable appropriate steps during such period, in accordance with a timeline established by the U.S. Secretary of Health (Secretary) to implement methods, satisfactory to the Secretary, for the collection and reporting of reliable data to the Transformed Medicaid Statistical Information System (or a successor system); and demonstrate progress in establishing a State Medicaid Fraud Control Unit (MFCU) as described in section 1903(q).

The changes by the Act established that notwithstanding any other provision of title XIX, during the period in which the additional funds provided are available for Puerto Rico, with respect to payments from such additional funds for amounts expended by Puerto Rico, the Federal Medicaid Assistance Program reimbursable share was increased to 100 percent.

Further Consolidated Appropriations Act, 2020

On December 20, 2019, the United States Congress enacted the H.R. 1865, National Law Enforcement Museum Commemorative Coin Act [Further Consolidated Appropriations Act, 2020] including additional Medicaid funding for Puerto Rico. This Act included a temporary treatment by increasing the cap under Section 1108 of the Social Security Act to $2,623,188,000 and $2,719,072,000 for federal fiscal years 2020 and 2021.

The Act also included a further increase of $200 million for each year, if the Secretary certifies that Puerto Rico establishes a reimbursement floor, implemented through a directed payment arrangement plan, for physician services covered under Medicare Part B at a rate not less than 70%.

The changes by the Act established that notwithstanding any other provision of title XIX, during the period in which the additional funds provided are available for Puerto Rico, with respect to payments from such additional funds for amounts expended by Puerto Rico, the Federal Medicaid Assistance Program reimbursable share was increased to 76 percent.

Families First Coronavirus Response Act

On March 18, 2020, the President signed into law H.R. 6021, the Families First Coronavirus Response Act (FFCRA) (Pub. L. 116-127). Section 6008 of the FFCRA provides a temporary 6.2 percentage point increase to each qualifying state and territory's Federal Medical Assistance Percentage (FMAP) under section 1905(b) of the Social Security Act (the Act) effective beginning January 1, 2020 and extending through the last day of the calendar quarter in which the public health emergency declared by the Secretary of Health and Human Services for COVID-192, including any extensions, terminates.

Long-Term Debt

The Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico on March 14, 2011 in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000 and is payable in nine payments of $20,666,667 from 2015 through 2023. Interests are accrued at a fluctuating annual rate of interest equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

As of June 30, 2021 the accrued interest amounted to $74,688,578. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173 of 2010. Notwithstanding during the fiscal years ended June 30, 2016 through 2021, the OMB has failed to make principal and interest payments on behalf of the Administration.

Currently Known Facts

Financial Deterioration of the Commonwealth of Puerto Rico

As disclosed in Note 1, the Administration relies significantly on appropriations from the Commonwealth as well as recurring and non-recurring federal funding. Although the financial condition and liquidity of the Commonwealth has deteriorated, the Administration's has reflected a deficit reduction and surplus due to management cost reductions implementations and improvements on payment eligibility process. Because of the MCO Model Plan, the Administration must focus on the efficiency of the payment eligibility process, for example, adjustments to avoid double payments and deceased members. Furthermore, the Administration works with Cost of Benefit (COB) concept to improve reporting collecting data and reconciliation providing a better future Per Member Per Month (PMPM) payments negotiations.

Contacting the Administration Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the Administration's finances and to demonstrate the Administration's accountability for the federal and commonwealth, among others, funds it receives. If you have questions about this report or need additional information, contact the Puerto Rico Health Insurance Administration, PO Box 195661, San Juan, PR 00926-2706.

* * * * *

ASSETS

Current assets:	
Cash	$ 307,768,242
Accounts receivable:	
Federal grants	663,323,905
Pharmacy rebates program	111,853,413
Advance premium	312,007
Total current assets	1,083,257,567
Non-current assets:	
Accounts receivable:	
Municipalities - net of allowance for doubtful accounts of $89,156,413	18,317,455
Legislature appropriations and other - net of allowance for doubtful accounts of $744,520	10,013,030
Due from employers - net of allowance for doubtful accounts of $123,939,385	155,434
Other receivables	6,889
Capital assets – net	441,240
Due from MCO’s - net of allowance for doubtful accounts of $10,585,358	1,031,442
Due from Commonwealth	23,554,000
Total non-current assets	53,519,490
Total assets	1,136,777,057
Deferred outflows of resources:	
Pension related	1,553,928
OPEB related	12,000
Total deferred outflows of resources	1,565,928
Total assets and deferred outflows of resources	$ 1,138,342,985

See accompanying notes to financial statements.

LIABILITIES AND NET POSITION

Current liabilities:	
Premiums and claims payable	$ 300,350,094
TPA administration fees payable	142,242,490
Obligation payable Governmental Development Bank	144,666,669
Accounts payable and accrued expenses	19,655,171
Accrued compensated absences	658,533
Accrued termination benefits	407,571
Total pension liability	312,332
Other postemployment benefits liability	11,994
Total current liabilities	608,304,854
Non-current liabilities:	
Obligation payable Governmental Development Bank	37,528,690
Interest payable	74,688,578
Accrued termination benefits	2,444,421
Total pension liability	6,306,765
Other postemployment benefits liability	140,667
Total non-current liabilities	121,109,121
Total liabilities	729,413,975
Deferred inflows of resources:	
Pension related	262,623
Total liabilities and deferred inflows of resources	729,676,598
Net position:	
Investment in capital assets	441,240
Unrestricted	408,225,147
Total net position	408,666,387
Total liabilities, deferred inflows of resources and net position	$ 1,138,342,985

See accompanying notes to financial statements.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2021

Operating revenues:	
Contributions from:	
Federal grants	$ 2,999,633,483
Commonwealth of Puerto Rico	339,364,001
Municipalities	63,831,156
Employers	14,251,206
Pharmacy rebate program – net	255,966,739
Bad debts expense	(11,860,507)
Total operating revenues	3,661,186,078
Operating expenses:	
Medical premiums and claims	3,625,691,537
General and administrative	21,422,233
Depreciation	401,870
Total operating expenses	3,647,515,640
Operating income	13,670,438
Non-operating revenues and expenses:	
Legislative appropriations from the Commonwealth of Puerto Rico	14,840,000
Interest expense	(11,022,284)
Recapture of deposits from governmental development bank	1,053,356
Interest income	262,968
Total non-operating revenues and expenses	5,134,040
Increase in net position	18,804,478
Net position at beginning of year	389,861,909
Net position at end of year	$ 408,666,387

See accompanying notes to financial statements.

Puerto Rico Health Insurance Administration

(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2021

Cash flows from operating activities:	
Cash receipts from contributions	$ 3,280,357,882
Cash receipts from pharmacy rebate program	226,192,758
Cash payments of premiums, health care organizations and third party administrators	(3,528,784,770)
Cash payments to vendors	(13,276,073)
Cash payments to employees	(4,356,953)
Net cash used in operating activities	(39,867,156)
Cash flows from non-operating and financing activities:	
Legislative appropriations from the Commonwealth of Puerto Rico	14,840,000
Interest paid	(29,789)
Net cash provided by non-operating and financing activities	14,810,211
Cash flows from investing activities:	
Purchase of capital assets	(297,249)
Interest collected	262,968
Increase in advanced premiums	(118,294)
Net cash used in investing activities	(152,575)
Net decrease in cash and cash equivalents	(25,209,520)
Cash and cash equivalents, at beginning of year	332,977,762
Cash and cash equivalents, at end of year	$ 307,768,242

See accompanying notes to financial statements.

Reconciliation of operating income to net cash used in operating activities:

Operating income	$ 13,670,438
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation and amortization	401,870
Provision for bad debts	11,860,507
Changes in operating assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable:	
Federal grants	(125,386,878)
Municipalities	18,232,216
Legislative appropriations and other	(4,957,135)
Pharmacy rebates program	(29,773,981)
Employers	1,811
Due from MCO's	(295,446)
Due from State government	(23,554,000)
Deferred outflows of resources	
Pension related	(732,532)
OPEB related	(12,000)
Increase (decrease) in liabilities:	
TPA administration fees payable	60,534,082
Premiums and claims payable	36,372,685
Accounts payable and accrued expenses	3,275,702
Accrued termination benefits	(375,939)
Accrued compensated absences	6,450
Other postemployment benefits	16,434
Total pension liability	926,124
Deferred inflows	
Pension related	(77,564)
Net cash used in operating activities	$ (39,867,156)

See accompanying notes to financial statements.

1. REPORTING ENTITY

The ***Puerto Rico Health Insurance Administration*** (the Administration or PRHIA) is a governmental entity and a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created on September 7, 1993 by Act No. 72 (the Act), as amended. The Administration commenced operations on February 1, 1994 and is considered a public corporation with full autonomy.

The Administration is responsible for implementing, administering, and negotiating a health insurance system, through contracts with health insurers, mental health organizations, pharmacy benefit managers, third party administrators and Medicare Advantage organizations, among others. The Administration thrives to provide all qualifying Puerto Rico residents access to quality healthcare services, including mental health, through a Managed Care Organization (MCO) model.

The Administration relies significantly on appropriations from the Commonwealth as well recurring and non-recurring federal funding. The Administration is the sub-grantee of federal funds provided by the Medicaid Program under Title XIX of the Social Security Act and Title XXI of the State Children's Health Insurance Program (CHIP). The Puerto Rico Department of Health (Department of Health) is the single state agency, and it has a cooperative agreement with the PRHIA which is responsible for implementing and administering the island-wide government health insurance program. Within the Department of Health, the Puerto Rico Medicaid Program (Medicaid Program) is the primary grantee of federal funds and is responsible for administering the eligibility to the government health insurance program of federal and Commonwealth beneficiaries.

A regionalization system was implemented to establish a network of participating providers throughout Puerto Rico and ensure the closest possible service to beneficiaries. The Administration pays a monthly premium to such insurance underwriters based on a contracted premium and the number of members subscribed in the health plan. Funds to pay for such premiums are requested from the Commonwealth net of funds available for such purposes from all other sources.

Under the provisions of Act No. 105 of July 19, 2002, which amended Act No. 72 of 1993, the Administration was authorized to negotiate directly with health providers under a pilot program. The Administration has, since then, entered into different direct contracts to cover the insured population of different regions and municipalities. Since November 1, 2006 through September 1, 2010, the Administration directly contracted providers that served approximately 190,000 lives from the metro-north region. Since June 30, 2011, the Administration has direct contracting projects with the Municipalities of Vieques and Guaynabo.

Effective October 1, 2010, a new integrated health care model named "Mi Salud" was developed with the following changes:

1) Set up a standard premium per region as established by the Administration.

2) Eliminate the referrals when the beneficiary needs the service of a specialist.

3) Better access to prescribed medicines without the authorization of the primary health care provider.

4) Extended hours for health care providers of basic services

5) Tele-emergency services available 24 hours.

1. REPORTING ENTITY (CONTINUED)

6) Integration of the physical and mental health care in one place.

7) The risk of the primary health provider in relation to medicines, emergency and preventive health care test was decreased and was transferred to the health care insurance companies.

8) Increase the coverage to include the middle-class working force.

9) Set up a ceiling in relation to administrative expenses and gains of the health care insurance companies.

On October 14, 2014, the Board of Directors of the PRHIA awarded new contracts for the Government Public Health Insurance Plan (the "GHP"), which replaced the former "Mi Salud" plan, to five private insurance providers pursuant to a bidding process. The new contracts became effective on April 1, 2015. Under the new contracts, the Commonwealth of Puerto Rico's public health insurance model changed from a Third-Party Administrator (TPA) model, in which the Commonwealth was ultimately responsible for the cost of the health services provided, to a MCO model, in which the Administration will pay the insurers a fixed premium for each insured beneficiary and the insurers will be responsible for the cost of such services.

On July 3, 2018, the Board of Directors of the Administration awarded new contracts for the new Government Healthcare Program to five private managed care organizations pursuant to a bidding process. Under the new model, beneficiaries will have the option to select the MCO and the network of providers of their choice. In addition, it will offer an enhanced care model for patients with certain chronic and high-cost, high-need (HCHN) conditions such as cancer, diabetes, end-stage renal disease, chronic obstructive pulmonary disease with asthma, hypertension, severe cardiac insufficiency, serious mental illness, and serious emotional disorder. Furthermore, the new model will strengthen oversight and the audit process with the creation of the Medicaid Fraud Control Unit and will also comply with the measures and cost-control objectives established in the Commonwealth's fiscal plan.

2. GENERAL MATTER

On March 14, 2011, the Administration requested a $186 million non-revolving line of credit from the Government Development Bank of Puerto Rico (GDB). On the same date, a Fiscal Oversight Agreement (FOA) was subscribed between the Administration and GDB in order to provide assistance and monitoring of the Administration's finances. The FOA authorizes GDB to assist the Administration to adopt a fiscal stabilization plan and to take measures it deems necessary to ensure the Administration's financial self-sufficiency. The FOA was terminated by GDB as of June 30, 2018.

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the "Qualifying Modification"). Pursuant to the Qualifying Modification and Act No. 109-2017, as amended (the "GDB Restructuring Act"), claims on account of deposits held by the Administration at GDB were applied to the above referenced line of credit, which as of June 30, 2021, was retained by GDB.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The accompanying financial statements have been presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized when earned, regardless of when received, and expenses when incurred, regardless of when paid.

b. Basis of presentation

These financial statements are presented as an enterprise fund and conform to the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34, as amended, establishes standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

The Employees Retirement System of the Commonwealth of Puerto Rico did not provide the Administration the information needed for the year ended June 30, 2020 to comply with GASB Statement No. 73. Accordingly the financial statements, for the year ended June 30, 2020 do not contain any adjustments, disclosures or required supplementary information established by GASB No. 73. The amounts shown in the statements of net position as net pension liability and deferred outflows and inflows were recognized under the requirements of GASB Statement No. 73.

c. Cash and cash equivalents

The Administration considers all highly liquid investments with maturities of three months or less to be cash equivalents.

d. Allowance for doubtful accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience.

e. Capital assets

Capital assets are stated at cost. Donated property is reported at their estimated fair value at the date received. When assets are retired or otherwise disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recorded for the period. Expenditures for repairs and maintenance that doo does not extend the useful lives of the assets are charged to operations in the year incurred.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of Capital Assets

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Administration reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. No impairment charges were recorded during the years ended June 30, 2020 and 2019.

g. Depreciation and amortization

Depreciation is provided over the estimated useful life of each class of depreciable asset which range from four to ten years and is computed using the straight-line method.

h. Compensated absences

The employees of the Administration earn thirty (30) days of vacation and eighteen (18) days of sick leave annually. Since May 2017, the employees accumulate 1.25 days per month of vacation, which is equivalent to 15 days of vacation annually. Vacation time accumulated is fully vested to the employees from the first day of work but cannot be used during the first three months of work. In the event of resignation, an employee is reimbursed for accumulated vacation days up to sixty (60) days. Separation of employment prior to the use of all or part of the sick leave terminates all rights for compensation except that, in the event of retirement, an employee is reimbursed for accumulated sick leave days up to the maximum allowed of ninety (90) days after 10 years of services.

i. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditure) until then. Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are capitalized and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

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

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net differences between projected and actual earnings on pension plan investments is deferred and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date. Changes in proportional share of contributions, differences between the expected and actual experience and changes in actuarial assumptions, are deferred and recognized over a period of time equal to the expected remaining working lifetime of active and inactive participants.

j. Accounting for pension cost

Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB Statement 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 Administration accounts for pension costs under the provisions of GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, And Amendments to Certain Provisions of GASB Statements 67 And 68.

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefit 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 is based on the ratio 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.

The Administration's funding policy is to contribute the amount required to fully fund the plan's current liability or the amount necessary to meet the applicable regulations. On June 27, 2017, the Secretary of the Treasury of the Commonwealth of Puerto Rico issued its Circular Letter 1300-46-17, implementing the PayGo System, which consists of a monthly charge as disclosed in Note 11 to the basic financial statements.

k. Other Postemployment Benefits

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. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to the pension benefits described above, 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 MIPC. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth.

l. Revenue recognition

The Administration distinguishes operating revenue from non-operating revenue. Revenue from sources from the Puerto Rico Department of Health, the Commonwealth of Puerto Rico, Municipalities, Employers and Pharmacy Rebate Program are recorded as operating revenue. Revenue from legislative appropriations and interest are recorded as non-operating revenue.

m. Contributions from the Commonwealth of Puerto Rico

Contributions received from the Commonwealth represent appropriations to cover the local share to meet federal funds matching requirements and funds for the payment of health insurance premiums and administrative expenses.

n. Contributions from the Puerto Rico Department of Health

Contributions received from the Department of Health represent payments to the Administration by the Medicaid Program which consist of a determined monthly amount of the funds allocated to Puerto Rico under Titles XIX and XXI of the Social Security Act and State Plan.

To comply with the federal funds matching requirements, the Administration is assigned funds from the Commonwealth. The Medicaid Program is the recipient of CHIPS and Prescription Drugs funds which are in whole transferred to the Administration for health care services for the eligible population.

o. Contribution from Municipalities

Contribution from Municipalities represent the budgetary appropriations of the municipal governments for direct health services in areas covered by the government health plan. The charges made by the Administration are based on established percentages applied to the corresponding Municipalities' operational budget for the lesser of current fiscal year or fiscal year 2004-2005 as set forth in Act No. 72 of September 7, 1993, as amended. These contributions are withheld by the Center for Municipal Revenue Collection from money assigned to the municipalities and remitted to the Administration on a monthly basis. During fiscal year 2021 no contributions were required to be made due to the passing of law.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Pharmacy rebate program

The Administration established a governmental pharmacy rebate program which consists of agreements negotiated for obtaining pharmaceutical rebates and discounts with regards to the utilization of prescription branded drugs dispensed to beneficiaries. The Administration has continued engaging service organization for the pharmacy rebate program implementation and administration. The Administration retains 100 percent of the income derived from this program.

q. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from those estimates.

The employees have the right to accumulate the excess of sixty (60) days in vacation and ninety (90) days in sick leave until December 31 of each year. The excess should be used by the employee before the end of the following natural calendar year. The excess not used is forfeited.

Compensated absences are accrued when incurred using the pay or salary rates in effect at the date of the statement of net position.

r. Risk management

The Administration is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters, and other losses. Commercial insurance coverage is obtained for potential claims arising from such matters.

The commercial insurance coverage is negotiated by the Department of Treasury of the Commonwealth of Puerto Rico and the cost is billed to the Administration.

s. Accounting Pronouncements issued but not yet effective

GASB Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 92, Omnibus 2020

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective as follows:

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

GASB Statement No. 93, Replacement of Interbank Offered Rates (IBOR)

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an LIBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

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

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.
- The effective dates of the following pronouncements are postponed by 18 months:
- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

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

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with *GASB Statement No. 95*, *Postponement of the Effective Dates of Certain Authoritative Guidance*. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No 98, The Annual Comprehensive Financial Report.

This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

GASB Statement No 99, Omnibus 2022.

This Statement establishes the objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, Compensated Absences

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The Administration is evaluating the impact of these pronouncements.

4. CASH

The Administration's cash as of June 30, 2021 consisted of the following:

	2021
Cash deposited in commercial banks	$ 307,767,742
Petty cash	500
Total Cash	$ 307,768,242

5. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that, in an event of a bank failure, the Administration deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance coverage. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth.

6. ACCOUNTS RECEIVABLE

Gross accounts receivable and the allowance for doubtful accounts as of June 30, 2021 consist of the following:

	2021
Federal grants	$ 663,323,905
Municipalities	107,473,868
Legislature appropriations and other	10,757,550
Pharmacy rebates program	111,853,413
Other receivables	6,889
Due from employers	124,094,819
	1,017,510,444
Allowance for doubtful accounts:	
Municipalities	(89,156,413)
Legislature appropriations and other	(744,520)
Employers	(123,939,385)
	(213,840,318)
Accounts receivable, net	$ 803,670,126

Accounts receivable consist of financial assistance from the federal Medicaid Program and the corresponding state contributions and legislature appropriations. In addition, the administration has receivables from its pharmacy rebates program, employers' contributions, and other contributions. Accounts receivable are stated net of an allowance for doubtful accounts. The Administration estimated the allowance based on its historical experience of the relationship between actual collection and billings.

7. DUE FROM MCO's

The Administration contracted the services of a public accounting firm to carry out an internal audit of the claims payment system under the previous TPA model. The sample selected for testing revealed that the Administration made duplicated payments and paid premiums for deceased members to the contracted health insurance entities under such model.

The overpayment amount was estimated first, matching the certified deceased records to the Administration active enrollment file. Then, for each matching record, the Administration computed the number of months after the date of death for which a premium was paid by the corresponding PMPM payment.

As a result of the audit, the Administration filed a claim to one of the health insurance entities representing 37% of the total overpayment. As of the date of this report various validation procedures have been satisfactorily performed over the underlying data, but other allegations brought by the counterparty challenging certain contractual aspects of the GHP contract remain unresolved. The Administration believes that it has conclusive evidence to overcome counterparty allegations and recover a part of the amount claimed. As of June 30, 2021, the allowance for doubtful accounts of the above-mentioned overpayment was established for approximately $10.6 million.

8. CAPITAL ASSETS

The activities of the capital assets accounts as of June 30, 2021 were as follows:

	June 30, 2021			
	Beginning Balance	Additions	Retirements	Ending Balance
Equipment, computer and software	$ 3,168,720	$ 297,249	$ -	$ 3,465,969
Leasehold improvements	179,829	-	-	179,829
Furniture and others	1,134,088	-	-	1,134,088
	4,482,637	297,249	-	4,779,886
Accumulated depreciation	(3,936,776)	(401,870)	-	(4,338,646)
Capital assets, net	$ 545,861	$ (104,621)	$ -	$ 441,240

9. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB No. 65, Items Previously Reported as Assets and Liabilities, the Administration may recognize deferred outflows of resources in the Statement of Net Position.

These items are a consumption of net position by the Administration that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Administration has items that are reportable on the Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 11). As of June 30, 2021 the components of Deferred Outflows/Inflows of Resources reported in the basic financial statements were as follows:

9. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES (CONTINUED)

Deferred Outflows of Resources:	
Pension related	$1,553,928
Other postemployment benefits related	12,000
Total Deferred Outflows of Resources	$1,565,928
Deferred Inflows of Resources:	
Pension related	$ 262,623

10. OBLIGATION PAYABLE GOVERNMENT DEVELOPMENT BANK

On March 14, 2011, the Administration entered into a Credit Agreement with the Government Development Bank for Puerto Rico in order to pay its obligations to healthcare insurers incurred prior to fiscal year 2009-2010. The aggregate principal amount of the non-revolving line of credit was $186,000,000, payable in nine payments of $20,666,667, and each due on March 14 of the years 2015 through 2023. Interest is accrued at a fluctuating annual rate equal to the greater of (i) 1.5% over prime rate, and (ii) 6%.

On July 20, 2016, the Governor of Puerto Rico signed the Law 74 which authorized the GDB to consolidate all financing agreements made to governmental entities which are payable with appropriations from the legislature. Article 4 of such law lists all the governmental entities with financial agreements and the outstanding principal balance and accrued interest as of December 31, 2015. The Administration was listed with an outstanding principal balance of $183,251,298 and accrued interest of $14,215,650 as of December 31, 2015.

As of June 30, 2021, the outstanding principal balance amounted to $182,195,359 and the accrued interest amounted to $74,688,578, respectively. The Administration will pay the principal and interest with appropriations to be received from the Legislature of Puerto Rico through the Puerto Rico Office of Management and Budget (OMB) pursuant to Act No. 173. Notwithstanding, during the fiscal year ended June 30, 2021, the OMB failed to make principal and interest payments on behalf of the Administration. OMB did not appropriate any funds to pay the principal and interest of this Credit Agreement.

11. RETIREMENT SYSTEM

Plan description

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ERS), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. The ERS is a pension trust fund of the Commonwealth. All regular employees of the Administration hired before January 1, 2000 and less than fifty-five (55) years of age at the date of employment became members of the ERS as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

11. RETIREMENT SYSTEM (CONTINUED)

The ERS administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, Defined Benefit Program, a Defined Contribution Program (System 2000 program) and a Contributory Hybrid Program. Benefit provisions vary depending on a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporation at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the ERS. 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 are generally those members hired before April 1, 1990.

- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.

- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

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 as of June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

Each member has a nonforfeitable 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 semi-annually. The Commonwealth does not guarantee benefits at retirement age.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contributory Hybrid Program are pooled and invested by ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by ERS to reduce the unfunded status of the Defined Benefit Program.

On August 23, 2017 was enacted Act 106-2017 which impacted the benefits provided to PRGERS members as follows:

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

11. RETIREMENT SYSTEM (CONTINUED)

In addition to the benefit changes, Act 106-2017 provides that PRGERS will be funded on a pay-as-you-go basis. The following contributions are eliminated by Act 106-2017:

- Act 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 32-2013 Additional Uniform Contribution - was $776 million in 2016-2017 and projected as $685 million from 2017-2018 to 2032-2033, with annual recalculations (only of portion of the annual amounts were collected in prior years)
- Act 3-2013 Supplemental Contributions — was $2,000 for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act 447 or Act 1 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.

This summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the plan document itself.

<u>Service retirement eligibility requirements</u>

a) Eligibility for Act No. 447 Members: Act No. 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 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:

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 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.

b) Eligibility for Act No. 1 Members: Act No. 1 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 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 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 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.

11. RETIREMENT SYSTEM (CONTINUED)

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

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

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

d) 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.

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 and Act No. 1 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 Members* – The accrued benefit as of June 30, 2013

shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a mayor is determined as of June 30, 2013.

If the Act No. 447 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.

11. RETIREMENT SYSTEM (CONTINUED)

If the Act No. 447 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 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 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 Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For 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 up to $6,600 multiplied by years of credited service in excess of 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 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-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.

2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited *service*, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a mayor is determined as of June 30, 2013.

If the Act No. 1 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 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

11. RETIREMENT SYSTEM (CONTINUED)

For Act No. 1 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.

Compulsory Retirement

All Act No. 447 and Act No. 1 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.

Contributions

Act 106-2017 closed participation in PRGERS to new members effective July 1, 2017 and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. The following contributions were eliminated July 1, 2017 by Act 106-2017:

- Act 116-2011 Employer Contribution
- Act 32-2013 Additional Uniform Contribution
- Act 3-2013 Supplemental Contributions
- Member Contributions

The Act 211-2015 early retirement incentive was reflected in this valuation as the electing members are now known.

On October 30, 2016, the Fiscal Oversight Board for Puerto Rico designated the Government of Puerto Rico, the ERS for Government Employees, the Judicial ERS, and the Teacher ERS (together the "ERSs"), the University of Puerto Rico and 21 other public corporations of Puerto Rico as covered entities, subject to fiscal supervision in accordance with the federal legislation Puerto Rico Oversight, Management, and Economic Stability Act, better known as PROMESA.

Due to the lack of projected liquidity of the ERS, the Government of Puerto Rico will protect payments to pensioners. Effective July 1, 2017, the Government of Puerto Rico adopted the "PayGo" system. Under this new system, the Government will be responsible for paying the deficiency of the ERSs to provide retirement benefits for the pensioners.

Also, as of July 1, 2017, employer contributions, contributions under special laws and the Uniform Additional Contribution (Law no. 32-2013) were eliminated and replaced with the “PayGo”. Currently, the Government of Puerto Rico is working on reforming the ERSs from its current form to a New Defined Contribution Plan managed by a private entity.

11. RETIREMENT SYSTEM (CONTINUED)

Actuarial Valuation

The actuarial valuation of the Basic System Benefits and System Administered Benefits as of June 30, 2020 reflects a total pension liability of $31,690,268,011. For the year ended June 30, 2021 the Administration recognized pension expense of $450,507 and as of that date reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,653	$149,002
Changes of assumptions	830,962	$113,621
Changes in proportion	396,981	-
Benefit payments made after measurement date	312,332	-
	$1,553,928	$262,623

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

Year Ending June 30,	Collective Data	Proportional Share
2021	$574,642,701	$256,398
2022	$574,642,701	$256,398
2023	$574,642,702	$256,398
2024	$744,142,052	$209,779
	$2,468,070,156	$978,973

Actuarial Methods and Assumptions

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.

11. RETIREMENT SYSTEM (CONTINUED)

As per ERS Actuarial Valuation Report as of June 30, 2020, future actuarial measurement may differ significantly from the current measurements used in the report mentioned above due to factors such as the following: plan experience differing from actuarial assumption; future changes in the actuarial assumptions; Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes on the plan funded status); and changes in the plan provisions or accounting standards.

The significant actuarial assumptions used to determine the standardized measure of the pension benefits obligation as of June 30, 2020 are as follows:

- Municipal Bond Rate: 2.21% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

- Pre-retirement Mortality: For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale 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 127.

- Post-retirement Health Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

- Post-retirement Disabled Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis. Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement.

- Actuarial Cost Method: The plan's actuarial cost method is the entry age normal method.

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

11. RETIREMENT SYSTEM (CONTINUED)

Discount Rate

The tax-free municipal bond index of 2.21% as of June 30, 2020, was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2020. The discount rate as of June 30, 2020 and 2019, was as follows:

	June 30, 2020	June 30, 2019
Discount Rate	2.21%	3.50%
Municipal bond rate *	2.21%	3.50%

** Bond Buyer General Obligation 20-Bond Municipal Bond Index*

The Total Pension Liability of $5,692,973 was determined as follows:

Change in Total Pension Liability	Total Pension Liability	Proportional Share
Beginning Balance	$28,026,444,581	$5,853,840
Change for the year:		
Service Cost	80,522,871	16,819
Interest on Total Pension Liability	957,779,992	200,050
Effect of Plan Changes	(112,474,537)	(23,492)
Effect of Economic/Demographic (Gains) of Loses	112,929,326	23,587
Effect of Assumptions Changes or Inputs	4,121,585,684	860,869
Benefit Payments	(1,496,519,906)	(312,576)
Ending Balance	$28,026,444,581	$6,619,097

Sensitivity of the proportionate share of the net pension asset to changes in the discount rate

The following presents the Administration proportionate share of the net pension asset calculated using the discount rate of 2.21 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (1.21 percent) or one percentage point higher (3.21 percent) than the current rate:

	At 1 percent decrease (1.21%)	At current Discount rate (2.21%)	At 1 percent increase (3.21%)
Total Pension Liability	$36,352,343,526	$31,690,268,011	$27,931,851,685
Proportional Share	$7,592,857	$6,619,097	$5,834,082

11. RETIREMENT SYSTEM (CONTINUED)

Fiscal Plan for Puerto Rico

The 2020 Fiscal Plan for Puerto Rico was submitted on May 3, 2020 to the Financial Oversight and Management Board ("FOMB"), a body created by the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). The liabilities presented in this valuation are based on existing law only.

Pay-As-You-Go Funding

Operating a retirement system on a "pay-go" charge basis may be conceptually simple but can be very difficult in practice when the plan sponsor's current funds and ability to rely on reserves are limited or non-existent. While the valuation of ERS liabilities for financial reporting purposes is conducted on an annual basis in arrears, benefit payments vary continuously and respond instantaneously to emerging events. There are also administrative expenses incurred continuously.

Disbursements will experience natural variation due to emerging demographic experience and could 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 is determining what the process of budgeting for "pay-go" funding will be. While expected "pay-go" amount can be set at the time of budgeting for an upcoming fiscal year, disbursements can vary from expectations during the fiscal year under the following circumstances:

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.

- If the ERS be permitted to develop a budget request of a "pay-go" amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. "Pay-go" operation is a complex issue that requires careful though and planning, constant monitoring, and the ability to respond to emerging events quickly. Additional information on the ERS is provided in its stand-alone basic financial statements, a copy of which can be obtained from the ERS Administration, PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

12. ACCRUED TERMINATION BENEFITS

On July 2, 2010, the Commonwealth Enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined.

In this early retirement benefit program, the Administration will pay the employer contributions to the Retirement System and the corresponding pension until the employee complies with the age requirements and 30 years of creditable services applicable to the Retirement System. Economic incentives are available to eligible employees that qualify for retirement benefits. Economic incentives consist of a payment ranging from one to six months of salary.

Additionally, eligible employees that choose to participate in this program, other than those qualifying for retirement benefits, are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Commonwealth of Puerto Rico.

At June 30, 2021 unpaid long-term benefits granted on this program were discounted 3%. Total accrued terminations benefit as of June 30, 2021 amounted to $2,851,991.73.

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 11, The Administration participates in the Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico (the Commonwealth) for Retired Participants of the Employees' Retirement System (the Plan). It is an unfunded, multi-employer defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions (GASB Statement No. 75).

The plan 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.

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.

Healthcare Benefits

The Plan covers a payment of up to $100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). The Plan is financed by the Commonwealth through legislative appropriations. However, the Commonwealth claims reimbursement from each employer on a monthly basis for the corresponding amount of the OPEB payments made by the Commonwealth in relation to the retirees associated with each employer. There is no contribution requirement from the plan members during active employment.

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Plan members were eligible for benefits upon reaching the applicable pension benefits retirement age. Act No. 3 of 2013 eliminated this healthcare benefit to the members that retired after June 30, 2013.

Actuarial Assumptions

Discount rate

The discount rate for June 30, 2020 and 2019 was 2.21 % and 3.50%, respectively. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation 20-Bond Municipal Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2019. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2020. This is the date as of which the Total OPEB Liability is determined. The Reporting Date is the employer's fiscal year ending date. This report is for measurement year July 1, 2019 to June 30, 2020 for reporting periods ending June 30, 2020 through June 30, 2021.

Significant Changes

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2019 was 94,590 retirees.

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows and outflows of resources as changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year.

Mortality

- Pre-retirement Mortality: For general employees not covered under Act No. 127, PubG-2010 Employee Mortality Rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2020 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale 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 127.

- Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2020 on a generational basis.

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement healthy retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

- Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2020 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

OPEB liability and expense

The OPEB Liability of $152,661 was determined as follows:

Change in OPEB Liability	Total OPEB Liability	Proportional Share
Beginning Balance	$963,731,403	$145,559
Changes for the year:		
Interest on Total Pension Liability	32,352,886	4,886
Effect of Economic/Demographic Gains	(6,905,329)	(1,043)
Effect of Assumptions Changes or Inputs	100,983,008	15,252
Benefit Payments	(79,409,391)	(11,994)
Ending Balance	$1,010,752,577	$152,661

The OPEB expenses for the year ended June 30, 2021 amounted to $12,000.

Sensitivity of proportionate share of the OPEB Liability to changes in the discount rate

The following presents the Administration proportionate share of the OPEB Liability calculated using the discount rate of 2.21 percentage, as well as what the Administration's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage lower (1.21 percent) or one percentage point higher (3.21 percent) than the current rate:

	At 1 percent decrease (1.21%)	At current discount rate (2.21%)	At 1 percent increase (3.21%)
OPEB Liability	$1,113,282,363	$1,010,752,577	$923,980,833
Proportional Share	$157,367	$152,661	$130,608

13. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

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.

Please see Note 11 above regarding the condition that the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (PRERS) has not issued audited financial statements as of and for the Measurement Year ended June 30, 2021.

14. COMMITMENT AND CONTINGENCIES

Commitments

On July 1, 2014, the Administration signed a lease agreement for five years commencing on July 1, 2014 through June 30, 2019 with an automatic extension for another five years from July 1, 2019 through June 30, 2024. The lease agreement has a cancellation penalty of $950,000 if the lease is not renewed at the end of the five-year term. Rent expense for the fiscal year ended June 30, 2021 was approximately $400,000. Total future minimum lease payments on this operating lease as of June 30, 2021, are as follows:

Year ending June 30,	Amount
2022	$ 412,454
2023	412,454
2024	412,454
	$ 1,237,362

Contingencies

The Administration is defendant and/or co-defendant in legal proceedings pertaining to matters incidental to the performance of its operations. With respect to the pending and threatened litigations, the Administration, in consultation with legal counsel, has advised that at this stage of the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, management does not consider it necessary to make any provision in its books for these cases and intends to contest them vigorously.

Federal grants

The Administration receives as a sub-grantee financial assistance from the federal government corresponding to the Medicaid Program passed through the Puerto Rico Department of Health, the grantee. Federal grants are subject to financial and compliance audits by grantor agencies to determine the Administration's compliance with the regulations and conditions of such grants. It is management's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

15. SUBSEQUENT EVENTS

The Administration has evaluated all subsequent events through October 31, 2022, which is the date the financial statements were available to be issued. The Administration is not aware of any subsequent event that could significantly impact on the financial statements.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

	2021	2020	2019	2018
Proportion of the Collective Total Pension Liability	0.02089%	0.02031%	0.02010%	0.01853%
Proportionate Share of the Collective Total Pension Liability	$6,619,097	$5,692,973	$5,549,379	$5,949,408

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

2. The total pension liability as of June 30, 2021 was measured as of June 30, 2020 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2019 that was updated to roll forward the total pension liability to June 30, 2020 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation’s pension plan’s status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplementary information and independent auditors' report.

	2021	*2020*	*2019*	*2018*
Proportion of the Collective Total OPEB Liability	0.01510%	0.01414%	0.02010%	0.01853%
Proportionate Share of the Collective Total OPEB Liability	\$152,661	\$136,227	\$136,363	\$135,337

Notes:

1. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived from valuation and actuarial reports. The full reports are available by the Employees' Retirement System. Such preparation requires management of ERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

2. The OPEB liability as of June 30, 2021 was measured as of June 30, 2020 and was determined by an actuarial valuation with beginning-of-year census data as of July 1, 2019 that was updated to roll forward the total pension liability to June 30, 2020 and assuming no gains or losses.

3. The information presented relates solely to the Corporation and not to the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

4. This information is intended to help users assess the Corporation's OPEB plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

5. This schedule is required to illustrate 10-years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

See accompanying notes to required supplementary information and independent auditors' report.

Puerto Rico Health Insurance Administration
(A Component Unit of the Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the Fiscal Year ended June 30, 2021

Federal Grantor/Pass-through/ Program or Cluster Title	**Federal Assistance Listing Number**	**Expenditures**
U.S. Department of Health and Human Services		
Major Programs:		
Passed-through the Puerto Rico Department of Health		
Medical Assistance Program	93.778	$ 2,643,005,175
Medical Assistance Program - COVID	93.778	118,202,746
Subtotal Medical Assistance Program Cluster		2,761,207,921
Children's Health Insurance Program	93.767	115,906,912
Children's Health Insurance Program - COVID	93.767	3,862,019
Subtotal Children's Health Insurance Program		119,768,931
Total Expenditures of Federal Awards		$ 2,880,976,852

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Puerto Rico Health Insurance Administration under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Puerto Rico Health Insurance Administration (the Administration), it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Administration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, 2 CFR Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. PASS-THOUGH ENTITY IDENTIFYING NUMBER

State or Local government redistribution of federal awards to the Administration, known as “pass-through awards”, should be treated by the Administration as though they were received directly from the federal government. Uniform Guidance requires the schedule to include the name of the pass-through entity for the federal awards received.

4. INDIRECT COST RATE

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

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

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

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of *Puerto Rico Health Insurance Administration* (the Administration), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements and have issued our report thereon dated October 31, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design of 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, misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge 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 weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

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

Carolina, Puerto Rico
October 31, 2022

Aquino, De Córdova, Alfaro & Co., LLP

Stamp number E513221
of Puerto Rico CPA Society
has been affixed to the
original report

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Jerry De Córdova, CPA, ESQ
Eduardo González-Green, CPA, CFF, CFE, FCPA
Maritza Rivera Serrano, CPA

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

To the Board of Directors of
Puerto Rico Health Insurance Administration
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the *Puerto Rico Health Insurance Administration's (the Administration)* 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 Administration's major federal programs for the year ended June 30, 2021. The Administration's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Administration'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 Administration'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 opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the Administration's compliance.

Basis for Qualified Opinion on Medical Assistance Program

As described in the accompanying schedule of findings and questions costs, the Administration did not comply with requirements regarding Assistance Listing 93.778 Medical Assistance Program as described in finding number 2020-001 for Special Test and Provisions. Compliance with such requirement is necessary, in our opinion, for the Administration to comply with requirements applicable to that program.

P.O. Box 70262, San Juan, Puerto Rico 00936-8262 • Cecilia's Place Suite C-1, #7 Rosa Street
Isla Verde, P.R. 00979 • Phone (787) 253-9595 • Fax (787) 253-9511

Qualified Opinion on Medical Assistance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Medical Assistance Program for the year ended June 30, 2021.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Administration complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Other Matter

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

The Administration's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Administration's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Administration 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 Administration'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 Administration's internal control over compliance.

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 have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-001 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

The Administration's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Administration'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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Puerto Rico Health Insurance Administration as of and for the year ended June 30, 2021 and have issued our report thereon dated October 31, 2022, which contained a qualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Carolina, Puerto Rico

Aquino, De Córdova, Alfaro & Co., LLP

October 31, 2022
Stamp number E513222
of Puerto Rico CPA Society
has been affixed to the original report

Aquino, De Córdova, Alfaro & Co., LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Section I- Summary of Auditor's Results

A. Summary of audit results:

Part I-**Financial Statements**

1. Type of auditor's report issued:	☑	Unmodified opinion	☐	Qualified opinion
	☐	Adverse opinion	☐	Disclaimer of opinion

Internal control over financial reporting:

2. Significant deficiencies identified?	☐	Yes	☑	No
3. Material weakness (es) identified?	☐	Yes	☑	No
4. Noncompliance material to financial statements noted?	☐	Yes	☑	No

Part II- **Federal Awards**

Internal control over major programs:

1. Significant deficiencies identified?	☑	Yes	☐	No
2. Material weakness(es) identified?	☑	Yes	☐	None reported
3. Type of auditor's reported on compliance for major programs:	☐	Unmodified opinion	☑	Qualified opinion
	☐	Adverse opinion	☐	Disclaimer opinion
4. Audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	☑	Yes	☐	No

5. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.778	Medical Assistance Program
93.778	Medical Assistance Program-COVID
93.767	Children's Health Insurance Program (CHIP)
93.767	Children's Health Insurance Program (CHIP)- COVID

6. Dollar threshold used to distinguish between Type A and Type B programs: $8,642,931

7. Auditee qualified as low-risk?	☐	Yes	☑	No

Section II – Financial Statements Findings

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

Section III – Federal Award Findings

Finding Number:	2021-001
Federal Program:	Medical Assistance Program
Assistance Listing:	93.778
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Test and Provisions-ADP Risk Analysis and System Security Review
Category:	Material Weakness and Noncompliance

Criteria

SMAs must establish and maintain a program for conducting periodic risk analyses to ensure appropriate and cost-effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. SMAs shall review ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The SMA shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition

The security plan for ADP (Automatic Data Processing) system, including policies and procedures to address contingency plans in the event of unforeseen interruptions has not been implemented and tested.

Cause

This situation was primarily caused by the lack of effective internal control over ADP Risk Analysis and System Security Review.

Effect

Critical business functions may not be resumed on time in case an emergency or disaster causes the ADP system resources to become unable to meet critical processing needs in the event of a short or long-term interruption of service.

Questioned Costs

None

Perspective information

N/A

Prior Year Audit Finding
2020-001

Recommendation

The Administration should establish and maintain a program for conducting periodic risk analysis to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems.

Management's Response:

Refer to Grantee's Corrective Action Plan

Finding Number:	2021-002
Federal Program:	Medical Assistance Program, Children's Health Insurance Program (CHIP)
Assistance Listing:	93.778, 93.767
Federal Grantor:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Test and Provisions- Manage Care Financial Audit
Category:	Significant Deficiency and Noncompliance

Criteria

Periodic Audit is required for managed care:

- Periodic Audits – Effective no later than for rating periods for contracts starting on or after July 1, 2017, the state must periodically, but no less frequently than once every three years, conduct, or contract for an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of each MCO, PIHP, and PAHP and post the results of these audits on its website (42 CFR section 438.602(e) and (g); May 6, 2016, Federal Register (81 FR 27497); OMB No. 0938-0920).

Condition

State Medicaid Agency (SMA) did not provide us with an independent audit carried out to each MCO to validate that information provided is accurate, truthful, and complete and post the results of on its websites.

Cause

This situation was primarily caused because State Medicaid Agency (SMA) does not conduct or contract to perform an independent audit to validate the accuracy, truthfulness, and completeness of the financial information submitted by each MCO.

Effect

State Medicaid Agency (SMA) does not ensure that each managed care organization provides correct, accurate, truthful, and complete financial information required by the Medicaid Assistance Program.

Questioned Costs

None

Perspective information

N/A

Prior Year Audit Finding

N/A

Recommendation

The State Medical Agency (SMA) should carry-out or contract to perform independent audit no less than once every three years to each MCO to validate the accuracy, truthfulness, and completeness of the financial information submitted, and post the results on its websites.

Management's Response:

Refer to Grantee's Corrective Action Plan

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2020-001	ADP Risk Analysis and System Security Review	None	Situation still prevails
2020-002	Utilization Control and Program Integrity and External Quality Review Organization (EQRO)	None	The responsibility for this finding for fiscal year 2021 falls on the Medicaid program of the Department of Health and they are in the contract process
2020-003	Reporting	None	Corrected

Autorizado por la Comisión Estatal de Elecciones
CEE-SA-19-166

Puerto Rico Health Insurance Administration
Management Comments / Corrective Action Plan
Single Audit for the period ended June 30, 2021

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2021-001 U.S. Department of Health and Human Services	The Administration should establish and maintain a program for conducting periodic risk analysis to ensure appropriate, cost effective safeguards are incorporated into new and existing systems.	After favorable results of the Proof of Concept (POC) for a Disaster Recovery Site (DRS) we have established an onsite replication environment for our system operation. ASES is currently engaged in requesting and evaluating processes with several vendors, based on ASES requirements and the Puerto Rico Innovation and Technology Service (PRITS) recommendations for a DRS base environment.	1/1/2023	Mr. Rafael L Vazquez Paniagua, Oficial Principal de informática (OPI) (787) 474-3327 rlvazquez@asespr.org

Finding Number, Federal Agency Reference:	Recommendations / Total questioned costs:	Management Comments / Corrective Action Plan:	Anticipated Completion Date	Responsible for Implementation:
2021-002 U.S. Department of Health and Human Services	The PRHIA (SMA) did not provide an independent audit carried out to each MCO to validate the accuracy, truthfulness, and completeness of information provided and post the results of these audits on its website.	The PRHIA's Compliance Office will develop and implement an audit workplan to periodically, but no less frequently than once every 3 years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each MCO, PIHP or PAHP. Once completed, the results of these audits will be posted on the Administration's website. It is important to note that the Administration contracted to conduct a review of encounter data management by each MCO. The purpose of the review was to assess the capture of claims data, submitting encounters, monitoring and correcting rejections and denials, and reporting quality, and to identify best practices or opportunities for improvement. Such reports were issued on October 29, 2021.	12/31/2022	Ms. Roxanna K. Rosario Serrano (787) 474-3300 ext.3202 Email. rrosario@asespr.org

1549 CII Alda, San Juan, 00926, Puerto Rico