COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

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

BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE UNIFORM GUIDANCE

Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **Commonwealth of Puerto Rico – Vocational Rehabilitation Administration (An Organizational Component of Puerto Rico Department of Labor and Human Resources** (**the Administration**), as of and for the year ended June 30, 2019, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Federal Programs Fund	Unmodified
Other Governmental Funds	Unmodified
Proprietary Funds	Unmodified

Basis for Qualified Opinion on Governmental Activities

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

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2019. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **Administration's** governmental activities has not been determined.

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

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

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Administration**, as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Administration**, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Uncertainty

As discussed in **Note 1** to the financial statements, the **Administration** receives legislative appropriations from the Commonwealth to match the federal awards. The Commonwealth's liquidity is severally affected since fiscal year 2015 and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external resources of financing. In addition, on April 20, 2018 the Financial Oversight and Management Board for Puerto Rico approved and certified its own fiscal plan for the Commonwealth. This fiscal plan contains several structural and fiscal reforms directed to improve the trajectory of the economy, drive growth, increase revenues and decrease expenditures. The final outcome of these measures on the **Administration's** operations is uncertain.

Considering that the **Administration** is dependent on the funds received from the Commonwealth to match the federal awards, the limitation of the Commonwealth to meet its obligations on a timely manner may affect the **Administration's** operations in the near future.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **5** through **10** and **46** through **48** respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Administration's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages **49** and **50**, is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards in fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2020 on our consideration of the **Administration's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Administration's** internal control over financial reporting and compliance.

López-Vega CPA PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2020

Stamp No. 2758881 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Our discussion and analysis of the Vocational Rehabilitation Administration (the Administration) financial performance provides an overview of its financial activities for the year ended June 30, 2019. Please read it in conjunction with the financial statements and accompanying notes.

Financial Highlights

- Administration's total assets amounted to approximately $4.8 million, which represents a decrease of approximately $2.82 million as compared to the balance for 2018. This decrease was due mainly to a decrease of $1.4 million on cash and $1.5 due from other agreement.

- Administration's total liabilities amounted to $10.6 million, which represents a decrease of approximately $1.75 million as compared to prior year. This decrease was due mainly to a decrease of $1.4 million in central government advances.

- Administration's total liabilities, on a government-wide basis, exceed its assets by approximately $5.8 million as of June 30, 2019.

Using this Annual Report

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

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

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

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

The Statement of Net Position and the Statement of Activities are commonly divided into the following activities:

- Governmental activities – the Administration's basic services are reported here, including among others, the rehabilitation services, management and support and capital improvements. Federal grants and legislative appropriations finance most of these activities.

- Business-type activities – The Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) is reported here. Sales of manufactured and purchase products and legislative appropriations finance this activity.

Fund Financial Statements

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

- Governmental funds – Most of the Administration's basic services are reported in governmental funds, which focus on how money flow into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide detailed short-term view of the Administration's general government's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Administration's operations. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation shown in the fund financial statements.

- Proprietary fund – This fund is used to show the activity of the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) which operates more like a commercial enterprise. Because this fund charges for the products that sells, it is known as enterprise fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Administration as a Whole

The Administration’s governmental activities net deficit amounted to $5.8 million at June 30, 2019.

The Administration’s business type activities net position amounted to $0.02 million at June 30, 2019.

The following table summarizes the statements of net position as of June 30, 2019 and 2018.

	Governmental Activities			Business Activities		
	2019	2018	Change	2019	2018	Change
Current and other assets	$ 4.49	$ 7.35	$ (2.86)	$ 0.07	$ 0.18	$ (0.11)
Capital assets	0.30	0.26	0.04	0.01	0.06	(0.05)
Total assets and deferred outflows of resources	4.79	7.61	(2.82)	0.08	0.24	(0.16)
Account payables and other current liabilities	2.64	2.90	(0.26)	0.04	0.08	(0.04)
Central government advances	2.07	3.42	(1.35)	-	-	-
Accrued compensated absences	3.17	2.79	0.38	0.02	0.02	-
Accrued termination benefits	2.71	3.23	(0.52)	-	-	-
Total liabilities and deferred inflows of resources	10.59	12.34	(1.75)	0.06	0.10	(0.04)
Net invested in capital	0.30	0.26	0.04	0.01	0.06	(0.05)
Unrestricted	(6.10)	(4.99)	(1.11)	0.01	0.08	(0.07)
Total net position (deficit)	$ (5.80)	$ (4.73)	$ (1.07)	$ 0.02	$ 0.14	$ (0.12)

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

- Total assets of the Administration’s governmental activities decreased by $2.82 million. This decrease was due mainly to a decrease of $1.4 million on cash and 1.5 due from other agreement.
- Total governmental activities liabilities decreased by $1.75 million. This decrease was due mainly to a decrease of $1.4 million in central government advances.
- Total governmental activities deficit increased by $1.07 million.

The following table summarizes the statement of activities for the year ended June 30, 2019 and 2018.

	Governmental Activities			Business Activities		
	2019	2018	Change	2019	2018	Change
Revenues:						
Charges for products	$ -	$ 0.01	$ (0.01)	$ 0.14	$ 0.19	$ (0.05)
Legislative appropriations	13.35	19.42	(6.07)	0.37	0.45	(0.08)
Special appropriations	-	1.11	(1.11)	-	-	-
Intergovernmental-federal government	48.18	33.74	14.44	-	-	-
Total Revenues	61.53	54.28	7.25	0.51	0.64	(0.13)
Program Expenses:						
Management and support	32.05	27.04	5.01	-	-	-
Vocational rehabilitation services	28.71	22.55	6.16	-	-	-
Older blind program	0.40	0.29	0.11	-	-	-
Independent life program	0.35	0.26	0.09	-	-	-
Sustained employment program	-	0.30	(0.30)	-	-	-
Program for the industry of blind and physical, mental and development disabilities persons	-	-	-	0.63	0.68	(0.05)
Total Expenses	61.51	50.44	11.07	0.63	0.68	(0.05)
Transfer out to central governmental	(1.09)	(0.30)	(0.79)	-	(0.04)	0.04
Increase (decrease) in Net Position	$ (1.07)	$ 3.54	$ (4.61)	$ (0.12)	$ (0.08)	$ (0.04)

During the year ended June 30, 2019, the Administration received $48.18 million from Federal Assistance Programs, representing 78% of total governmental activities funds received.

Also, the Administration expended $60.76 million for management and support and vocational rehabilitation services, representing 99% of total expenditures during the year ended June 30, 2019.

Capital Assets

At the end of June 30, 2019, the Administration had $0.30 million invested in equipment and furniture, (net of depreciation) in governmental activities and $0.01 invested in equipment, furniture and building improvements (net of depreciation) in business-type activities.

General Fund Budgetary Highlights

The 2018-2019 General Fund Budget amounted to $12,752,577 or $13,871 more than actual spending ($12,738,706).

For the year ending June 30, 2019, the General Fund Budget assigned to the Administration represents a decrease of $2,223,051 or 15% as compared with fiscal year ended June 30, 2018.

	2018	2019	Increase (decrease)
General Fund	$14,975,628	$12,752,577	$(2,223,051)

Going Concern – Commonwealth of Puerto Rico

The Commonwealth of Puerto Rico (Commonwealth) currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base, has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like subsidies to Administration, which are instrumentalities of the Commonwealth.

On May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United Stated history. The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Commonwealth's ability to continue as a going concern.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act") was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increasing revenues and reducing expenses substantially, including subsidies to the Administration of Puerto Rico.

Request for Financial Information

This annual financial report is intended to provide the public with an overview of the Administration financial operations and condition for the fiscal year ended June 30, 2019. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Vocational Rehabilitation Administration, PO Box 91118, San Juan Puerto Rico 00919-1118.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF NET POSITION
AS OF JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash in commercial banks and resources with fiscal agent	$ -	$ 23,483	$ 23,483
Receivables, net	-	69,919	69,919
Due from other government	4,111,746		4,111,746
Inventories	-	180,635	180,635
Prepaid	172,193	90	172,283
Internal Balances	204,126	(204,126)	-
Capital Assets, net	300,672	12,519	313,191
Total Assets	4,788,737	82,520	4,871,257
LIABILITIES			
Accounts payable and accrued expenses	2,643,823	40,669	2,684,492
Central Government Advances	2,068,742	-	2,068,742
Liabilities Payable within one year:			
Compensated Absences	2,628,781	19,157	2,647,938
Voluntary Termination Benefits	541,584	-	541,584
Liabilities Payable over one year:			
Compensated Absences	604,628	-	604,628
Voluntary Termination Benefits	2,105,222	-	2,105,222
Total Liabilities	10,592,780	59,826	10,652,606
Deferred inflows of resources			
Net Position			
Invested in Capital Assets	300,672	12,519	313,191
Unrestricted (deficit)	(6,104,715)	10,175	(6,094,540)
Total Net Position	$ (5,804,043)	$ 22,694	$ (5,781,349)

See accompanying Notes to Basic Financial Statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

		Program Revenue		Net (Expenses) Revenue and Changes in Net Position		
				Primary Government		
Functions/Programs	**Expenses**	**Operating Grants and Contributions**	**Charge for Services**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental activities:						
Management and Support	$ (32,051,572)	$ 31,609,157	$ -	$ (442,415)	$ -	$ (442,415)
Vocational Rehabilitation Services	(28,708,963)	29,166,439	-	457,476	-	457,476
Older Blind Program	(404,786)	404,786	-	-	-	-
Independent Life Program	(352,248)	352,248	-	-	-	-
	(61,517,569)	61,532,630	-	15,061	-	15,061
Business Type Activities:						
Program for the industry of blind and physically, mental and development	(628,360)	373,375	140,981	-	(114,004)	(114,004)
Total Business-Type Activities	(628,360)	373,375	140,981	-	(114,004)	(114,004)
Total	$ (62,145,929)	$ 61,906,005	$ 140,981			
Change in net position before transfers				15,061	(114,004)	(98,943)
Transfer out central government				(1,086,094)	-	(1,086,094)
Change in net position				(1,071,033)	(114,004)	(1,185,037)
Net position (deficit), beginning				(4,733,010)	136,698	(4,596,312)
Net position (deficit), ending				$ (5,804,043)	$ 22,694	$ (5,781,349)

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF JUNE 30, 2019

	General	Federal Programs	Other Governmental Funds	Total
ASSETS				
Due from other government	$ -	$ 4,111,746	$ -	$ 4,111,746
Prepaid expenses	172,194	-	-	172,194
Due from other fund	55,648	148,478	-	204,126
Total assets	227,842	4,260,224	-	4,488,066
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	291,110	2,352,713	-	2,643,823
Central Government Advances	161,231	1,907,511	-	2,068,742
Total liabilities	452,341	4,260,224	-	4,712,565
Fund balance (Deficit)				
Unassigned	(224,499)	-	-	(224,499)
Total fund balance (deficit)	(224,499)	-	-	(224,499)
Total liabilities and fund balance	$ 227,842	$ 4,260,224	$ -	$ 4,488,066

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2019

Total fund balances of governmental fund	$ (224,499)
Amounts reported to governmental activities in the Statement of Net Position are different than the amounts reported in the Balance Sheet - Government Funds because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund financial statements.	300,671
Liabilities of accrued compensated absences are not to be paid with current financial resources and therefore, not reported in the fund financial statements.	(3,233,409)
Liability of accrued termination benefits are not to be paid with current financial resources and therefore, not reported in the fund financial statements.	(2,646,806)
Net position of governmental activities	$ (5,804,043)

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	General	Federal Programs	Other Governmental Funds	Total Governmental Funds
REVENUES				
Legislative appropriations	$ 12,752,577	$ 600,000	$ -	$ 13,352,577
Federal grants	-	48,164,477	15,576	48,180,053
Total Revenues	12,752,577	48,764,477	15,576	61,532,630
EXPENDITURES				
Current:				
Management and Support	8,104,372	23,986,437		32,090,809
Vocational Rehabilitation Services	4,792,621	23,916,342	-	28,708,963
Older Blind Program	-	404,786	-	404,786
Independent Life Program	-	352,248	-	352,248
Capital expenditures	30,728	104,664	-	135,392
Total Expenditures	12,927,721	48,764,477	-	61,692,198
Excess (deficiency) of revenues over expenditures	(175,144)	-	15,576	(159,568)
OTHER FINANCING SOURCES (USES)				
Transfer out to Central Government	-	-	(1,086,094)	(1,086,094)
Total other financing sources and uses	-	-	(1,086,094)	(1,086,094)
Net change in fund balances	(175,144)	-	(1,070,518)	(1,245,662)
Fund (deficiency) balance, beginning	(49,355)	-	1,070,518	1,021,163
Fund balance, ending	$ (224,499)	$ -	$ -	$ (224,499)

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net change in fund balances-total governmental fund	**($1,245,662)**
Amounts reported for governmental activities in the Statement of Activities and changes in net position are different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense for the year.	37,455
Accrued compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the amount by which accrued compensated absences decreased.	(446,312)
Accrued termination benefits reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. This is the amount by which accrued termination benefits decreased.	583,486
Change in net position of governmental activities	**($1,071,033)**

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF NET POSITION – PROPRIETARY FUND
AS OF JUNE 30, 2019

	Business-Type Activities
Assets	
Current Assets	
Cash and resources with fiscal agent	$ 23,483
Receivables (net)	69,919
Inventories	180,635
Prepaid	90
Total current assets	274,127
Noncurrent Assets:	
Capital assets, net	12,519
Total assets	286,646
Liabilities and Net Position	
Current liabilities:	
Accounts payable	34,069
Due to other funds	204,126
Payroll taxes and withholdings	6,600
Accrued compensated absences, current portion	19,157
Total current liabilities	263,952
Net Position	
Net Investment in capital assets	12,519
Unrestricted (deficit)	10,175
Total net position	$ 22,694

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	Business-Type Activity
Operating revenues	
Net sales	$ 140,981
Cost of sales	
Materials	83,219
Direct Labor	164,428
Indirect costs	49,222
Total cost of sales	296,869
Excess of cost over revenue	(155,888)
General and administrative expenses	(331,491)
Operating loss	(487,379)
Non-operating revenue	
Appropriations from Central Government	373,375
Change in net position	(114,004)
Net position, beginning	136,698
Net position, ending	$ 22,694

See accompanying Notes to Basic Financial Statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	BUSINESS TYPE ACTIVITIES
Cash flows from operating activities:	
Receipts from customers	$ 120,140
Receipts from appropriations central government	373,375
Payment to suppliers	(547,984)
Advances from other funds	30,956
Net cash flows used in operating activities	(23,513)
Net decrease in cash and resources with fiscal agent	(23,513)
Cash beginning of year	46,996
Cash end of year	$ 23,483
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (114,004)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	47,649
Change in operating asses and liabilities:	
Decrease(Increase) in:	
Accounts receivable	(20,841)
Inventory	54,677
Other assets	23,251
Increase (decrease) in:	
Accounts payable	(45,230)
Due to other funds	30,956
Other liabilities	(3,200)
Compensating absences	3,229
Net cash used in operating activities	$ (23,513)

See accompanying Notes to Basic Financial Statements.

Note 1 – Governmental Environment

Organization

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

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

Funding

For governmental funds, the Administration is funded by contributions from Federal and Commonwealth of Puerto Rico governments. Legislative appropriations are collected annually to match the Federal Awards. During the year ended June 30, 2019, the ratio of Federal to State Funds was approximately 78% / 22%, respectively.

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

Program description

a. Management and Support

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

b. Vocational Rehabilitation Services

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

c. Older Blind Program

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

d. Independent Life Program

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

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

Basis of Presentation

Government-Wide Financial Statements

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

Statement of Net Position

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

a. **Invested in capital assets** – This consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of debt that are attributed to the acquisition, construction, or improvement of those assets, if any.

b. **Restricted net position** – Results when constraints placed on net position use are externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

c. **Unrestricted (deficit)** – This consists of amounts which do not meet the definition of the two preceding categories. Unrestricted (deficit) net position often has constraints on resources that are imposed by management but can be removed or modified.

Statement of Activities

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

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

Fund Financial Statements

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

Governmental Funds

The following are the governmental fund types presented in the financial statements as of and for the year ended June 30, 2019:

a. General Fund

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

b. Federal Programs

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

c. Other Governmental Funds

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

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

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

Proprietary Funds

The following is the proprietary fund that is presented in the financial statements as of and for the year ended June 30, 2019.

a. Business - type fund

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

Measurement Focus and Basis of Accounting

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

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

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

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

Encumbrances

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

Inventory

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

Capital Assets

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

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

Compensated Absences

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

Starting on May 1, 2019, current employees are entitled to 1.25 days per month and can accrue up to a maximum of 60 days for vacations and 1.5 days per month up to maximum of 90 days for sick leave if they were employed before February 4, 2019. Employees hired on February 4, 2019 or after are entitled to 1.25 days per month up to a maximum of 60 days for vacation and 1 day per month up to a maximum of 90 days for sick leave.

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

Accounting for pension costs

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

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

Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" was effective for the Administration starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2018 basic financial statements, nor has it provided to the Administration with the required information to implement the referred accounting pronouncement. The Administration's contribution for OPEB is included as part of the Paygo charges billed on a monthly basis by the Puerto Rico Department of the Treasury ("PRDT"). Paygo payments are recorded as expenditures\expenses in the financial statements.

<u>Fund Balance Reporting</u>

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

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

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

Fund Balance Reporting

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

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

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

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

3. **Committed Fund Balance -** These amounts can only be used for specific purposes pursuant to constraints imposed by the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the same group removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

4. **Assigned Fund Balance** - This classification reflects the amounts constrained by the Administration to be used for specific purposes but are neither restricted nor committed.

   Assigned Fund Balance includes all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

5. **Unassigned Fund Balance** - This fund balance is the residual classification for the General Fund. This classification represents General fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

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

Deferred Outflows / Inflows or Resources

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

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

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

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

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

Use of Estimates

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

Postponed Accounting Standards Implementation

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

Future Accounting Standards

In January 2018 the ***GASB issued Statement No. 84, "Fiduciary Activities".*** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. There is no impact of this statement on the Administration financial statements.

In June 2018 the ***GASB issued Statement No. 87, "Leases".*** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2018 the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*"

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In August 2018 the **GASB issued Statement No. 90, *"Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61".***

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

On May 5, 2019 the GASB issued **Statement No. 91, "*Conduit Debt Obligation*"**

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.

- The issuer and the third-party obligor are not within the same financial reporting entity.

- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

On January 2020 the GASB issued **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. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases,* for interim financial reports.

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.

- The applicability of Statements 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,* as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits.

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities,* to postemployment benefit arrangements.

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.

- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature

- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

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

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

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

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

- Earlier application is encouraged and is permitted by topic.

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

Note 3 – Custodial Credit Risk

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

As of June 30, 2019, the Administration has operating accounts with "Banco Popular of Puerto Rico" and in the PR Department of the Treasury. The exposure to custodial credit risk on these accounts is as follows:

Business-Type Activities

	Book balance	Bank balance	Amount Uninsured and Uncollateralized
Unrestricted cash:			
Deposited account			
Fiscal Agent	$23,383	$22,894	$
Total unrestricted cash	$23,383	$22,894	$

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

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

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

Note 4 – Resources with Fiscal Agent

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

Note 5 – Risk Financing

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

Note 6 – Accounts Receivable

The balance in accounts receivable of governmental activities mainly represents federal funds expended on or before June 30, 2019, that were reimbursed by the Federal Government during the fiscal year ending June 30, 2019.

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

Note 7 – Inter-fund Transactions

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

Note 8 – Capital Assets

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

	Beginning Balance	Additions	Retirement	Ending Balance
Governmental Activities:				
Capital Assets being depreciated:				
Equipment	$9,992,347	$ -	$ -	$9,992,347
Furniture	835,610		-	835,610
Vehicles	109,460	135,392	-	244,852
Total Capital assets being depreciated	10,937,417	135,392	-	11,072,809
Less accumulated depreciation:				
Equipment	9,934,886	17,101	-	9,951,987
Furniture	629,854	69,554	-	699,408
Vehicles	109,460	11,282	-	120,742
Total accumulated depreciation	10,674,200	97,937	-	10,772,137
Governmental activities capital assets, net	$ 263,217	$ 37,455	$ -	$ 300,672

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

	Beginning Balance	Additions	Retirement	Ending Balance
Business - Type Activities:				
Capital Assets being depreciated:				
Equipment	$ 91,039	$ -	$ -	$ 91,039
Furniture	128,733	-	-	128,733
Vehicles	38,800	-	-	38,800
Building improvements	450,153	-	-	450,153
Total Capital assets being depreciated	708,725	-	-	708,725
Less accumulated depreciation:				
Equipment	87,256	1,757	-	89,013
Furniture	122,258	2,612	-	124,870
Vehicles	38,800	-	-	38,800
Building improvements	400,243	43,280	-	443,523
Total accumulated depreciation	648,557	47,649	-	696,206
Business type activities capital assets, net	$ 60,168	$(47,649)	$ -	$ 12,519

Note 9 – Central Government Advances

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

Note 10 – Compensated Absences

The vested compensated absences liability balance at June 30, 2019 consists of the following activity:

	Beginning Balance	Net Change	Ending Balance	Due within one year
Governmental Activities:				
Accrued vacations	$2,787,097	$446,312	$3,233,409	$2,628,781
Business - Type Activities:				
Accrued vacations	$ 15,928	$ 3,229	$ 19,157	$ 19,157

Note 11 – Voluntary Termination Benefits

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

The financial impact resulting from the benefits granted to participants on this program was the recognition in the Administration's financial statements of a liability of $2,646,806 in the Statement of Net Position as of June 30, 2019 and a reduction of $583,486 in the Statement of Activities for the year ended June 30, 2019. At June 30, 2019, unpaid long-term benefits granted on this program were discounted at 2.13%.

Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Accrued termination benefits	$3,230,292	$ -	$(583,486)	$2,646,806	$541,584

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

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

Benefits provided

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

Contributions

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

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

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2018 nor has it provided the Administration with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (Administration's measurement date), necessary to comply with the requirements of **GASB Statement No. 75** "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows \ inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

Note 12 – <u>Retirement System Reform</u>

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

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

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

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

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

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

Creation and transition to a new defined contribution plan

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

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

Reform of ERS's governance and administration

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

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

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding administered by the PRDT. As a result, the plans operated by ERS under various benefit structures prior to July 1, 2017 are administered through a trust that do not meet the requirements of ***GASB Statement No. 68*** as of July 1, 2017 and instead, the employers are subject to the requirements of ***GASB Statement No. 73,*** *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".* Since the ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2018 nor has provided to the Administration certain required information necessary to properly implement the provisions of ***GASB Statement No. 73*** as of and for the fiscal year ended June 30, 2019, amounts related to pensions reported in the government-wide financial statements are the same amounts reported in the 2017 financial statements under ***GASB Statement No. 68.*** Amounts reported as deferred outflows \ inflows of resources related to pensions and net pension liability in the government-wide financial statements had not been updated since previous years. In addition, applicable disclosures and required supplementary information have been omitted.

Note 13 – Contingencies

<u>Litigation and Claims</u>

The Commonwealth of Puerto Rico's Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State, provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors and other may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund.

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

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

Federal Awards

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

Note 14 – Commitments

Operating Leases

The Administration leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one year are cancelable at the Administration's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2019 amounted to $3,681,645. Future operating lease commitments are scheduled as follows:

Year Ending June 30	Amount
2020	$ 3,308,585
2021	2,951,699
2022	1,554,727
2023	1,496,654
2024	575,950
2025-2042	1,660,764
	$11,548,379

Note 15 – Uncertainty

As discussed in Note 1 to the financial statements, the Administration receives legislative appropriations from the Commonwealth of Puerto Rico (the Commonwealth) to match the federal awards. The funds of the Administration are under the custody of the Secretary of the Treasury of the Commonwealth until transferred to the Administration.

The Commonwealth's liquidity is severally affected since fiscal year 2016 and remains extremely limited, primarily, as a result of the Commonwealth's inability to access external resources of financing. In addition, as more fully described on Note 3 to the financial statements, on April 20, 2018 the Financial Oversight and Management Board for Puerto Rico approved and certified its own fiscal plan for the Commonwealth. This fiscal plan contains several structural and fiscal reforms directed to improve the trajectory of the economy, drive growth, increase revenues and decrease expenditures. The final outcome of these measures on the Administration's operations is uncertain.

Considering that the Administration is dependent on the funds received from the Commonwealth to match the federal awards, the limitation of the Commonwealth to meet its obligations on a timely manner, may affect the Administration's operations in the near future.

Note 16 – <u>Subsequent Events</u>

Management has evaluated subsequent events through February 24, 2020, date in which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)
YEAR ENDED JUNE 30, 2019

	Original	Budget Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Management and Support	$ 9,298,227	$ 9,298,227	$ 9,298,227	$ -
Vocational rehabilitation services	3,454,350	3,454,350	3,454,350	-
Total	12,752,577	12,752,577	12,752,577	-
CHARGES TO APPROPIATIONS				
Management and Support	9,298,227	9,298,227	9,284,356	13,871
Vocational rehabilitation services	3,454,350	3,454,350	3,454,350	-
Total	12,752,577	12,752,577	12,738,706	13,871
Excess (deficiency) of resources over charges to appropriations	$ -	$ -	$ 13,871	$ 13,871

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

Note 1 – General

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

a. The Administration's management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).

b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the Legislature.

c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project is prepared (the 1st of July of each year).

d. Once the budget project is approved, legally adopted and in operations, the Administration's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.

e. Formal budget integration is employed as a management control devise during the fiscal year for the General Fund.

f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

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

Note 2 – Budget/GAAP Reconciliation

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

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

1. Encumbrances are considered as expenditures for budgetary purposes.

2. Prior year encumbrances settled during the year are recorded as expenditures for GAAP basis.

3. Effect of revenues recorded in PRIFAS System other than those of accounting Fund 111.

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

Excess (deficiency) of resources over charges to appropriations from the budgetary comparison schedule	$ 13,871
Differences - Budget to GAAP:	
Encumbrances for supplies and services ordered but not received, are reported in the year the order or contract is signed for budgetary purposes, but for financial reporting purposes they are recorded as expenditures in the year the supplies and services are received.	(189,015)
Total deficiency of revenues over expenditures in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance.	$ (175,144)

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entities Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Education:				
Direct programs:				
Rehabilitation Services				
Vocational Rehabilitation Grants to States	84.126	H126A170080 H126A180080 H126A190080	$ -	$47,909,943
Independent Living Services for Older Individuals who are Blind States Grants	84.177	H177B1170052 H177B1180052 H177B1190052	-	404,786
Sub – total U.S. Department of Education			**-**	**48,314,729**
U.S. Department of Homeland Security:				
Passthrough programs:				
P.R. Central Recovery and Reconstruction Office (COR3):				
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	DR-4339-PR	-	97,500
Sub – total U.S. Department of Homeland Security			**-**	**97,500**
U.S. Department of Health and Human Services:				
Direct programs:				
ACL Independent Living States Grants	93.369	17G1PRILSG 18G1PRILSG 19G1PRILSG	-	352,248
Sub – total U.S. Department of Health and Human Services:			**-**	**352,248**
Total Expenditures of Federal Awards			**$ -**	**$48,764,477**

The accompanying notes are an integral part of this schedule.

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the Administration from all federal programs for the year ended June 30, 2019. The Administration's reporting entity is defined in Note 1 to the financial statements.

Note 2 – Basis of presentation

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

Federal award programs titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of Federal programs, projects, services, and activities that provide assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by departments and establishments of the Federal government. The first two digits identify the Federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

Note 3 – Indirect Cost Rate

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

Note 4 – Major Program

The purpose of Title 1 of the Rehabilitation Act of 1973, as amended (Act), which authorized the Vocational Rehabilitation (VR) program, is to assist states in operating a comprehensive, coordinated, effective, efficient, and accountable program that is designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities and capabilities, so such individual may prepare for and engage in gainful employment (Section 100(a) of the Act). Total Vocational Rehabilitation Program disbursements for the fiscal year ended June 30, 2019 amounted to $ 47,909,943.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **Commonwealth of Puerto Rico – Vocational Rehabilitation Administration (An Organizational Component of Puerto Rico Department of Labor and Human Resources** (**the Administration**), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise **the Administration's** basic financial statements and have issued our report thereon dated February 24, 2020. The report on governmental activities was qualified because we were unable to obtain sufficient appropriate audit evidence about the deferred outflows/inflows, total pension liability, pension expense, and related note disclosures with respect to the implementation of GASB Statement No. 73. Also, we were unable to obtain sufficient appropriate audit evidence about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the net OPEB liability, and related note disclosures required for the implementation of GASB Statement No. 75.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item **2019-001**, that we consider to be a material weakness.

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

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

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2019-001**.

We noted certain other matters that we reported to management of **the Administration** in a separate letter dated February 24, 2020.

Administration's Response to Findings

The **Administration's** response to the 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2020

Stamp No. 2758882 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

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

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

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

Report on Compliance for Each Major Federal Program

We have audited **Commonwealth of Puerto Rico – Vocational Rehabilitation Administration (An Organizational Component of Puerto Rico Department of Labor and Human Resources** (**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, 2019. The **Administration's** major federal program is 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; 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 qualified opinion on compliance for major federal program. However, our audit does not provide a legal determination of the **Administration's** compliance.

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

Opinion on Major Federal Program

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 Rehabilitation Services – Vocational Rehabilitation Grants to States Program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2019-002** and **2019-003**. Our opinion on the major federal program is not modified with respect to these matters.

The **Administration's** response to the noncompliance 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.

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.

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

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

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items **2019-002** and **2019-003**, that we consider to be significant deficiencies.

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.

We noted certain matters that we reported to management of the **Administration** in a separate letter dated February 24, 2020

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 24, 2020

Stamp No. 2758883 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO VOCATIONAL REHABILITATION ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section I – Summary of Auditors' Results

Financial Statements

Opinion Unit:	**Type of Opinion:**
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Federal Programs Fund	Unmodified
Other Governmental Funds	Unmodified
Proprietary Fund	Unmodified

Internal control over financial reporting:

Material weakness identified?	Yes ☒	No ☐
Significant deficiencies identified not considered to be material weaknesses?	Yes ☐	No ☒
Noncompliance material to financial statements noted?	Yes ☒	No ☐

Federal awards

Internal Control over major programs:

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

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States

Dollar threshold used to distinguish between Type A and Type B programs: $1,462,934

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

Section II – Financial Statements Findings

Finding Reference 2019-001

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

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

Criteria

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

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

Condition

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

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

Section II – Financial Statements Findings

Finding Reference 2019-001 (Continued)

Condition (Continued)

Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.

Effect

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

Cause

The Retirement System Administration (ERS) has not provided the financial and technical information necessary for the implementation of GASB Statement 73 and GASB Statement No. 75 as of June 30, 2019.

Recommendation

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

Questioned Costs

None

Management's Response

See Grantee´s Corrective Action Plan

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-002

Agency:	U.S. Department of Education
Federal Program:	Rehabilitation Services-Vocational Rehabilitation Grants to States
CFDA:	84.126
Grant Number:	H126A17080 / H126A18080 /H126A19080
Grant Period:	October 1, 2016 - September 30, 2017 October 1, 2017 - September 30, 2018 October 1, 2018 - September 30, 2019
Compliance Requirement:	Eligibility
Category:	Significant Deficiency in Internal Control (SD) and Noncompliance (NC)

Criteria

34 CFR, Part 361, Section 41 (b)(1) and (2) – *Processing referrals and applications-Applications,* establishes that: (1) Once an individual has submitted an application for vocational rehabilitation services, an eligibility determination will be made within 60 days, unless— (i) Exceptional and unforeseen circumstances beyond the control of the agency preclude a determination within 60 days and the agency and the individual agree to a specific extension of time; or (ii) An extended evaluation is necessary, in accordance with §361.42(d). (2) An individual is considered to have submitted an application when the individual or the individual's representative, as appropriate, — (i) Has completed and signed an agency application form; (ii) Has provided information necessary to initiate an assessment to determine eligibility and priority for services; and (iii) Is available to complete the assessment process. (3) The designated State unit shall ensure that its application forms are widely available throughout the State.

34 CFR, Part 361, Section 54 (b) (2) (ii) and (iv) – *Participation of individuals in cost of services based on financial need -State unit requirements,* establishes that if the State unit chooses to consider financial need—(ii) The policies must be applied uniformly to all individuals in similar circumstances; and (iv) The policies must ensure that the level of an individual's participation in the cost of vocational rehabilitation services is reasonable.

Normative Communication Letter No. 2015-02, Section B (1) and (3) – *Food: Breakfast, Lunch and Dinner,* establishes that: (1) It is considered the feeding expense if it is required and it is evidenced that the applicant has to stay out of his/her home during the morning and the afternoon, so it is necessary to take food while receiving a rehabilitation service to determine eligibility, rehabilitation potential, achievement of employment goal or post-employment services.

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-002 (Continued)

(3) The cost of breakfast may be covered to the applicant / consumer if it is established according to the official class schedule or the scheduled service that begins at 7:00 AM or earlier and the distance from residence to the place of service implies a journey equal to or greater than one hour and half or more. If you only have that class all day, the cost of lunch is not covered.

Condition

As part of our audit procedures over the eligibility requirement, we requested for examination 60 applicant's files for the fiscal year ended June 30, 2019. We found the following exceptions:

a. Fourteen (14) instances in which the eligibility determination was not made within 60-days period. We could not obtain neither documentation for an exceptional and unforeseen circumstances beyond the control of the agency that precluded a determination within 60 days and the agency, and the individual agreed to a specific extension of time; nor documentation that an extended evaluation was necessary.
b. In two (2) cases, the documentation regarding the economic evaluation involving the participation of an individual in cost of services based on financial need was not found and consequently, we could not ascertain neither the policies were applied uniformly nor individual's participation in the cost of vocational rehabilitation services was reasonable.

Effect

Prompt and equitable handling of referrals of individuals for vocational rehabilitation services could be impaired. Also, the improper documentation or calculation could impair the level of an individuals' participation in the cost of vocational rehabilitation services. The Administration needs to ensure that all participants are uniformly and reasonably treated.

Cause

Improper documentation, lack of adherence to monitoring and/or enforcement of internal control procedures and regulations.

Context

A sample of 60 applicants was selected for audit from a total of 5,229 applicants. Test several instances of noncompliance. Our sample was a statistically valid sample.

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-002 (Continued)

Prior Year Audit Finding

2018-003

Recommendation

The Administration should improve its monitoring and/or enforcement procedures regarding the internal controls over prompt referrals, financial need evaluations, and the uniform application of the benefits granted.

Questioned Costs

Could not be determined

Management's Response

See Grantee´s Corrective Action Plan

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-003

Agency: U.S. Department of Education

Federal Program: Rehabilitation Services-Vocational Rehabilitation Grants to States

CFDA: 84.126

Grant Number: H126A17080 / H126A18080 /H126A19080

Grant Period: October 1, 2016 - September 30, 2017
October 1, 2017 - September 30, 2018
October 1, 2018 - September 30, 2019

Compliance Requirement: Performance Reporting (RSA-911)

Category: Significant Deficiency in Internal Control (SD) and Noncompliance (NC)

Criteria

34 CFR Part 80 Section (3) - *Internal control,* states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

234 CFR Part 80 Section 20(6) - *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

34 CFR, Part 361, Section 88 (c) *Reporting requirements,* establishes that a Designated State Unit (DSU) may submit its RSA–911 data on any alternative electronic format that is compatible with RSA's capability, but data reported by a DSU must be valid, accurate, and in a consistent format.

Condition

As part of our audit procedures over performance reporting requirement, we requested for examination 50 individuals' files who exited the vocational rehabilitation program during the fiscal year ended June 30, 2019. We found the following exceptions:

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-003 (Continued)

a. In six (6) cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:

Case identification number (CIN)	Date per Notification Letter	Date Reported in RSA-911
10	03/04/2019	03/06/2019
11	09/19/2018	09/20/2018
12	06/07/2019	06/18/2019
14	03/26/2019	06/26/2019
22	05/21/2019	06/28/2019
25	03/25/2019	04/11/2019

b. In one (1) case, the RSA-911 was not available for examination.
c. In one (1) case, the notification letter was not available for examination.
d. In one (1) case, the employment outcome at exit per RSA-911 do not agree with documents on the participant's file.
e. In eight (8) cases the wage per hour do not agree between RSA-911 and the documents on the participant's file.

Effect

As stated in 34 CFR, Part 361, Section 89 (a) *Reporting requirements,* if a DSU fails to submit data that are valid, accurate, and in a consistent format within the 60-day period, the DSU must develop a program improvement plan pursuant to §361.89(a) that outlines the specific actions to be taken by the DSU to improve program performance.

Cause

The computerized system known as CRIS from which the data is obtained, lacks sufficient checkpoints for critical information as determined by the federal program. Also, internal control procedures might not be sufficient to timely detect and correct any discrepancy.

Section III-Federal Awards Findings and Questioned Costs

Finding Number: 2019-003 (Continued)

Context

A sample of 50 individuals' files who exited the vocational rehabilitation program during the fiscal year ended June 30, 2019 was selected for audit from a total of 4,330 applicants. Test found several instances of noncompliance. Our sample was a statistically valid sample.

Prior Year Audit Finding

2018-005

Recommendation

The computerized system known as CRIS should have a double check procedure for sensitive or critical information as determined by the federal program. Also, a proper supervision or monitoring procedure should be performed to detect and correct, on a timely manner, any inconsistency noted.

Questioned Costs

Not applicable

Management's Response

See Grantee´s Corrective Action Plan

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2018-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)	The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. In addition, the Administration's financial statements do not disclose the descriptive	The Administration will closely monitor the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.	None	Not resolved yet. See current year finding **2019-001.**

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 to comply with the requirements of GASB Statement No. 75 “*Accounting and*			

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		Financial Reporting for Postemployment Benefits Other Than Pensions". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2018-002	Allowable Costs /Cost Principles	As part of our audit procedures over allowable costs /cost principles requirement regarding the payroll cost allocation, we requested for examination sixty (60) employees' files who had worked for the Program during the fiscal year ended June 30, 2018. We found the following exceptions: a. In forty nine (49) cases, the RAPP was not prepared by the employee.	Procedures have been issued and upon review of the documentation, we realized that most employees who work on one sole program have not been filing the biannual certification in the RAPP form. To correct this situation, we have amended regulatory communication 2017-12, which states all instructions pertaining to RAPP submission and review by supervisors. Recently we issue the Regulatory Communication #2019-03, as a reminder and also stating new terms for capturing all information on the RAPP forms (Personnel	None	Full corrective action was taken.

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

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

Fiscal Year: 2018-2019

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Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs

Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			Activity Reports acronym in Spanish). The Payroll Section will provide monthly reports to supervisors and payroll will be set on hold for employees who do not comply with requirements set forth in the new Regulatory Communication. During the month of April the Payroll Section will provide mandatory training to all Central Office Staff regarding RAPP. completion and allocation of salaries to specific grants or programs.		

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

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

Fiscal Year: 2018-2019

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Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2018-003	Eligibility	As part of our audit procedures over the eligibility requirement, we requested for examination 60 applicant's files for the fiscal year ended June 30, 2018. We found the following exceptions: a. Two instances in which the eligibility determination was not made within 60-days period and two instances in which the period could not be determined. We could not obtain neither documentation for an exceptional and unforeseen circumstances beyond the control of the agency that precluded a determination within 60 days and the agency and the individual agreed to a specific extension of time; nor	VRA agrees with the finding and the recommended procedures haves been in process of implementation. The Agency has a specific and uniform public policy for the determination of eligibility, (Normative Communication 2015-25 Procedure for Applying the Eligibility Criteria), the economic contribution (Normative Communication 2007-25 Application of the Economic Analysis for Contribution by Services) and services of maintenance (Normative Communication 2015-02 Procedure to Provide	Could not be determined	Not resolved yet. See current year finding **2019-002.**

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
		documentation that an extended evaluation was necessary. . b. The documentation regarding the economic evaluation involving the participation of an individual in cost of services based on financial need was not found and consequently, we could not ascertain neither the policies were applied uniformly nor individual's participation in the cost of vocational rehabilitation services was reasonable. c. There was one instance in which the maintenance benefit (food) were inconsistently awarded.	the Maintenance Service to Applicants / Consumers of the Vocational Rehabilitation Administration). However, normative communication will be developed, imparting new instructions because of the results of the Single Audit. Likewise, the level of regional supervision will intervene with the Vocational Rehabilitation Counselors in a pro-active manner, offering greater technical assistance when applying the eligibility criteria in 60 days or less. The Director of the Vocational Rehabilitation Counseling Services Center will		

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			establish a strategic plan to intervene with the Vocational Rehabilitation Counselors that violate this public policy.		
2018-004	Earmarking	The provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services has a deficit for program year 2017 totaling $8,125,702, based on 15 percent of their vocational rehabilitation allotment of $56,762,322 since allowed costs recorded amounted to $388,646.	Although the Agency had a detailed work plan to use the funds that were reported by the Budget Division, we did not have the direct whiplash of a Category 5 Hurricane. As of December 31, 2018, the Pre-ETS 2017-4 had expenses up to $ 5,436,288. The fiscal area was able to show that the funds were separated into a special account for the exclusive use of Pre-ETS services. Even with the ravages left by Hurricane	Not applicable	Full corrective action was taken.

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

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

Fiscal Year: 2018-2019

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			Maria, it is important to indicate that by the year 2018, five (5) service providers were contracted, resulting in a direct impact on 8,007 students with disabilities who participated in the pre-employment transition service fairs. In addition, eleven (11) service providers were hired, which impacted 1,885 students with disabilities who participated in workshops and guidance. The services and the fiscal area has established an aggressive plan together that includes cooperative agreements with government agencies, municipalities and private		

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Principal Executive: Madeline Hernandez Dipini

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			companies so that our consumers can take advantage of these new opportunities that are being offered.		
2018-005	Performance Reporting (RSA-911)	As part of our audit procedures over performance reporting requirement, we requested for examination 60 individuals' files who exited the vocational rehabilitation program during the fiscal year ended June 30, 2018. We found the following exceptions: a. In four cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:	VRA does not accept this finding, as established in the following public policy in the Manual of Counseling Services in Vocational Rehabilitation: Page 53. Section D. D. Closing without Determining Eligibility The CRV can determine closure without determining eligibility in the following situations: the	Not applicable	Not resolved yet. See current year finding **2019-003.**

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<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for findings not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Case identification number (CIN)</th><th>Date per Notification Letter</th><th>Date Reported in RSA-911</th></tr>
<tr><td>13</td><td>6/4/2018</td><td>6/12/2018</td></tr>
<tr><td>14</td><td>6/4/2018</td><td>6/12/2018</td></tr>
<tr><td>15</td><td>11/10/2016</td><td>4/18/2018</td></tr>
<tr><td>16</td><td>1/30/2018</td><td>3/13/2018</td></tr>
<tr><td>17</td><td>12/9/2016</td><td>3/8/2018</td></tr>
<tr><td>18</td><td>3/19/2018</td><td>5/14/2018</td></tr>
</table>
b. In three cases, the RSA-911 was not available for examination.
c. In three cases, the notification letter was not available for examination
</td><td>applicant cannot be located, impediment is very severe, does not interest the services of the ARV, death of the applicant, has no physical / mental impediment, has no vocational impediment, of interest and cooperation, among other reasons. Once the termination determination is discussed with the applicant / parent / guardian / representative, the intention to close the service record in st. 08, in the next 30 calendar days. In the record of services there must be, at least, evidence of three appointments to the office and one to the home.</td><td></td><td></td></tr>
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Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

Principal Executive: Madeline Hernandez Dipini

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			The applicant has up to 30 calendar days to react to the notification of the intention to close their service file, including filing a complaint or mediation in the relevant forums. If the applicant does not communicate his CRV, or submit a complaint or mediation within 30 calendar days, the CRV will proceed to close the service request in st. 08 and will send the written notification to the applicant. The closures in st. 08 due to severity (reason 2) are revised once per year. Page 58. Section I.		

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

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

Fiscal Year: 2018-2019

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Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs

Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			I. Closing without receiving services The CRV can make the decision to close the service file of the ARV (St. 10), for different reasons: it cannot be located, it has a very significant impediment, it does not wish to continue receiving services, death, a person confined in an institution, transferred to another agency or lack of cooperation, among other reasons. In the record of services there must be at least evidence of three appointments to the office and a home visit. The CRV will interpret the		

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

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

Fiscal Year: 2018-2019

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Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs

Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			consumer / representative or send you in writing the intention to close the service record after determining eligibility, but before having developed the PIPE. The consumer / representative will have 30 days from receiving the notice of intention to close to react to this decision, including filing a complaint or mediation in one of the appellative or mediation forums. If the consumer informs the CRV within 30 days of the notification of closure, which does not agree with the closure of their file, the CRV cites the		

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

Audit Period: July 1, 2018 – June 30, 2019 Fiscal Year: 2018-2019

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Contact Person: Mabel Jiménez Miranda – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			consumer to discuss the decision. If the consumer does not contact their CRV, nor submit any complaint or mediation in an appellate or mediation forum within 30 calendar days, the CRV will proceed to close the service record at St. 30 and send written notification to the consumer. Pages 68 y 69. Section M. M. Closures The last stage of the process of providing services is closing the service file. In this section we will describe the most		

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Fiscal Year: 2018-2019

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Phone: (787) 729-0160

Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			important aspects of the rehabilitated closure (st.26) and the not rehabilitated closure (st.28). Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26): 1. Amendments to the Rehabilitation Law (PL 105-220 of 1998) establish that the record of services of a consumer who has obtained a job must be maintained working a minimum of 90 days. Once the CRV identifies that the consumer is working, it has the responsibility to negotiate		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			and develop the preparatory amendment toclose the service file with the consumer or his representative. The following aspects are included in the preparatory amendment: a. The employment goal in the Initial PIPE or in the last amendment, must be the occupation in which the consumer is working. b. The CRV will make an analysis that the employment goal is consistent with the strengths, resources,		

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			priorities, concerns, unique abilities, capabilities, interests and informed consumer selection. c. It will indicate the time that the consumer has been working, name and address of the employer, salary (equal to or more than the federal minimum wage), hours that he works (full or partial), if it is by contract and the duration thereof, marginal benefits (if		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			applies), consumer satisfaction at work, if you are doing tasks appropriately and negotiation to establish the projected date for closing the service record in the rehabilitated category (st.26). d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE.		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			e. The Preparatory Amendment for closing the service record includes two services: 1. Counseling in Vocational Rehabilitation - Support for adjustment in the work scenario, identify progress and possible obstacles to keep working. 2. Follow-up on Employment - This		

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			includes at least one monthly follow-up that can be by telephone or any means of communication, making a total of three minimum procedures in 90 days. Of these at least, one must be a personal contact with the consumer (a home visit or an appointment to the office).		

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			The rehabilitated closure is the status to complete the services with a result of employment. Compliance with the public policy of the ARV is ensured and the participation and the informed selection of the consumer on the individualized services of vocational rehabilitation is promoted always to achieve the goal in an integrated environment. The CRV will notify the consumer / representative of the intention to close their service file and of their right to appeal this decision, if they do		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			not agree with it. Page 68 and 69. Paragraph P. P. Closing Not Rehabilitated After Receiving Services The CRV will proceed to close the service record when vocational rehabilitation services previously agreed and received through the Initial PIPE or its Amendments have been provided between the CRV and the consumer / representative, but without obtaining a result of employment. This decision must be based on the current public policy, the evidence and		

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			the corresponding justification to make the decision to close the service file in the category not rehabilitated.		
2017-002	Allowable Costs /Cost Principles	As part of our audit procedures over allowable costs /cost principles requirement regarding the payroll cost allocation, we requested for examination 25 employees' files who had worked for the Program during the fiscal year ended June 30, 2017. We found the following exceptions: a. In seventeen cases the RAPP was not prepared by the employee. b. In three cases although the employee	PRVRA is reviewing all regulatory communications pertaining to requirements disclosed in 2 CFR 200. We have issued a reminder to all agency personnel regarding compliance with regulatory communication # 2017-12, which states all instructions pertaining to RAPP submission and review by supervisors. On June 22, 2018, the administrator issued the	None	Full corrective action was taken.

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		had prepared the RAPP, it was not duly signed by the supervisor.	reminder. Copy enclosed. Fiscal area was instructed to provide monthly reminders to all personnel via email. A reminder template was designed, copy enclosed.		
2017-003	Eligibility	As part of our audit procedures over the eligibility requirement, we requested for examination 60 applicant's files for the fiscal year ended June 30, 2017. We found the following exceptions: a. Three instances in which the eligibility determination was not made within 60-days period and two instances in which the period could not be determined. We could not obtained neither documentation for an exceptional and unforeseen	The Agency has a specific and uniform public policy for the determination of eligibility, (Normative Communication 2015-25 Procedure for Applying the Eligibility Criteria), the economic contribution (Normative Communication 2007-25 Application of the Economic Analysis for Contribution by Services) and services of maintenance	None	Not resolved yet. See current year finding **2019-002.**

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		circumstances beyond the control of the agency that precluded a determination within 60 days and the agency and the individual agreed to a specific extension of time; nor documentation that an extended evaluation was necessary. b. The documentation regarding the economic evaluation involving the participation of an individual in cost of services based on financial need was not found and consequently, we could not ascertain neither the policies were applied uniformly nor individual's participation in the cost of vocational rehabilitation services was reasonable. c. There were three instances in which the maintenance benefit (food) were inconsistently awarded.	(Normative Communication 2015-02 Procedure to Provide the Maintenance Service to Applicants / Consumers of the Vocational Rehabilitation Administration). However, normative communication will be developed, imparting new instructions		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
2017-004	Maintenance of Effort (MOE)	The Administration has a MOE deficit for program years 2016 and 2017 totaling \$2,642,887 and \$2,094,054, respectively.	The VRA agency has already informed the Federal Agency about the situation. The RSA answered that is out of their control to approve us a weaver. That's a law and must be amendment by the US Congress. The VRA state ask for more state funds for FY 2018 to compliance the Maintenance of Effort (MOE) requirement.	None	Auditors did not issue finding for the current year. The grantor issued a waiver for this Grant year 2018.

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2017-005	Earmarking	The provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services has a deficit for program year 2016 totaling $6,994,966, based on 15 percent of their vocational rehabilitation allotment of $57,328,050 since allowed costs recorded amounted to $1,604,242.	Regarding the loss of Pre-ETS funds ($ 6,994,966) it is important to indicate that the plan in line with the legislation of the Pre-ETS began in January 2017, leaving only nine (9) months for the planning and execution of the same. However, at present the Agency has developed activities with private suppliers for the fulfillment of Pre-ETS services.	None	Full corrective action was taken.

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<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for findings not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td>2017-006</td><td>Performance Reporting (RSA-911)</td><td>As part of our audit procedures over performance reporting requirement, we requested for examination 25 individuals' files who exited the vocational rehabilitation program during the fiscal year ended June 30, 2017. We found the following exceptions:
a. In four cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:
<table>
<tr><th>Case identification number (CIN)</th><th>Date per Notification Letter</th><th>Date Reported in RSA-911</th></tr>
<tr><td>2</td><td>10/13/2016</td><td>1/12/2017</td></tr>
<tr><td>7</td><td>11/12/2013</td><td>6/15/2017</td></tr>
<tr><td>12</td><td>4/5/2013</td><td>6/30/2017</td></tr>
<tr><td>22</td><td>5/13/2016</td><td>9/29/2016</td></tr>
</table></td><td>The ARV has established the following in its public policy in the Manual of Vocational Rehabilitation Counseling Services:
Page 53. Section D.
D. Closing without Determining Eligibility
The CRV can determine closure without determining eligibility in the following situations: the applicant cannot be located, impediment is very severe, does not interest the services of the ARV, death of the applicant, has no physical / mental impediment, has no vocational impediment, of</td><td>None</td><td>Not resolved yet. See current year finding 2019-003.</td></tr>
</table>

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		b. In one case the date the individualized plan for employment (IPE) was performed (October 14, 2009) differs from the date reported in RSA-911 (November 30, 2009). c. In one case the date of application (November 13, 2013) differs from the date reported in RSA-911 (December 17, 2013).	interest and cooperation, among other reasons. Once the termination determination is discussed with the applicant / parent / guardian / representative, the intention to close the service record in st. 08, in the next 30 calendar days. In the record of services there must be, at least, evidence of three appointments to the office and one to the home. The applicant has up to 30 calendar days to react to the notification of the intention to close their service file, including filing a complaint or mediation in the relevant		

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			forums. If the applicant does not communicate his CRV, or submit a complaint or mediation within 30 calendar days, the CRV will proceed to close the service request in st. 08 and will send the written notification to the applicant. The closures in st. 08 due to severity (reason 2) are revised once per year. I. Closing without receiving services The CRV can make the decision to close the service file of the ARV (St. 10), for different reasons: it cannot be		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			located, it has a very significant impediment, it does not wish to continue receiving services, death, a person confined in an institution, transferred to another agency or lack of cooperation, among other reasons. In the record of services there must be at least evidence of three appointments to the office and a home visit. The CRV will interpret the consumer / representative or send you in writing the intention to close the service record after determining		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			eligibility, but before having developed the PIPE. The consumer / representative will have 30 days from receiving the notice of intention to close to react to this decision, including filing a complaint or mediation in one of the appellative or mediation forums. If the consumer informs the CRV within 30 days of the notification of closure, which does not agree with the closure of their file, the CRV cites the consumer to discuss the decision. If the consumer does not contact their CRV,		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			nor submit any complaint or mediation in an appellate or mediation forum within 30 calendar days, the CRV will proceed to close the service record at St. 30 and send written notification to the consumer. Pages 68 y 69. Section M. M. Closures. The last stage of the process of providing services is closing the service file. In this section we will describe the most important aspects of the rehabilitated closure (st.26) and the not rehabilitated closure (st.28).		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26): 1. Amendments to the Rehabilitation Law (PL 105-220 of 1998) establish that the record of services of a consumer who has obtained a job must be maintained working a minimum of 90 days. Once the CRV identifies that the consumer is working, it has the responsibility to negotiate and develop the preparatory amendment to close the service file with the consumer or his		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			representative. The following aspects are included in the preparatory amendment: a. The employment goal in the Initial PIPE or in the last amendment, must be the occupation in which the consumer is working. b. The CRV will make an analysis that the employment goal is consistent with the strengths, resources, priorities, concerns, unique abilities, capabilities, interests and informed consumer selection. c. It will indicate the time that the consumer has been working, name and address of the employer, salary (equal to or more than the federal		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			minimum wage), hours that he works (full or partial), if it is by contract and the duration thereof, marginal benefits (if applies),consumer satisfaction at work, if you are doing tasks appropriately and negotiation to establish the projected date for closing the service record in the rehabilitated category (st.26). d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE. e. The Preparatory Amendment for closing the service record includes two services:		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			(1) Counseling in Vocational Rehabilitation - Support for adjustment in the work scenario, identify progress and possible obstacles to keep working. (2) Follow-up on Employment - This includes at least one monthly follow-up that can be by telephone or any means of communication, making a total of three minimum procedures in 90 days. Of these at least, one must be a personal contact with the consumer (a home visit or an appointment to the office). The rehabilitated closure is the status to complete the services with a result of employment.		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			Compliance with the public policy of the ARV is ensured and the participation and the informed selection of the consumer on the individualized services of vocational rehabilitation is promoted always to achieve the goal in an integrated environment. The CRV will notify the consumer / representative of the intention to close their service file and of their right to appeal this decision, if they do not agree with it. Page 68 and 69. Paragraph P. P. Closing Not Rehabilitated After Receiving Services		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			The CRV will proceed to close the service record when vocational rehabilitation services previously agreed and received through the Initial PIPE or its Amendments have been provided between the CRV and the consumer / representative, but without obtaining a result of employment. This decision must be based on the current public policy, the evidence and the corresponding justification to make the decision to close the service file in the category not rehabilitated. The CRV does not prepare an Amendment to the PIPE for the closure not rehabilitated.		

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			The CRV will inform the consumer / representative, 30 days in advance, of the intention to close the service file. Prepare a closing annotation, stating the reason for closure, in a clear, specific and relevant manner that includes the consumer's acceptance of the closure of the service file. Some reasons to close the service file are: cannot be located, severity, refused services or their continuation, death, institutionalized consumer and lack of interest and cooperation, among others. The records of closed consumer services not		

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Original Finding Number	Finding	Condition	Corrective Actions for findings not corrected or partially corrected	Questioned Cost	Status
			rehabilitated due to severity (reason 2) must be reviewed within one year of their closure.		

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Federal Program: Rehabilitation Services - Vocational Rehabilitation Grants to States
Grant Number: H126A170080 / H126A180080
Fiscal year ended: June 30, 2019

Finding Number and Compliance Requirement & Condition	Recommendations and Questioned Costs	Corrective Action Taken	Department and Responsible Officials
Section II – Financial Statements Findings **Finding Reference 2019-001** **Requirement:** Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC) **Type of finding:** Material Weakness in Internal Control (MW), Instance of Noncompliance (NC) **Criteria** GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the	Recommendation: We recommend the Administration maintains a constant communication with the Retirement System Administration (ERS), in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75. Questioned Costs: None	VRA Accepts the finding. The Administration will closely monitor the actions of the Retirement System Administration (ERS) in order to try to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75.	Finance Division/Payroll Section

Section II – Financial Statements Findings			
Finding Reference 2019-001 (Continued) Administration report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information. Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net OPEB liability and the reporting of historical data as Required Supplementary Information.			

Section II – Financial Statements Findings **<u>Finding Reference 2019-001 (Continued)</u>** **Condition** The Administration has not implemented the accounting and financial reporting requirements for pensions that are provided to the employees of state and local government employers through pension plans trust that do not comply with GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. In addition, the Administration's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 73 for single-employer pension plans. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements.			

Section II – Financial Statements Findings **<u>Finding Reference 2019-001 (Continued)</u>** **Condition (Continued)** Also, the Administration did not implement the accounting and financial reporting requirements for schedules of employment allocations and OPEB amounts by employer as of June 30, 2019 to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Administration's governmental activities has not been determined. Applicable disclosures and required supplementary information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements has been omitted.			

Section III – Federal Awards Findings and Questioned Costs Finding Number: 2019-002 Compliance Requirement: Eligibility Condition: As part of our audit procedures over eligibility requirement, we requested for examination 60 applicant's files for the fiscal year ended June 30, 2019. We found the following exceptions: a. Fourteen (14) instances in which the eligibility determination was not made within 60-days period. We could not obtain neither documentation for an exceptional and unforeseen circumstances beyond the control of the agency that precluded a determination within 60 days and the agency, and the individual agreed to a specific extension of time; nor documentation that an extended evaluation was necessary. b. In two (2) cases, the documentation regarding the economic evaluation involving the participation of an individual in cost of services based on financial need was not found and consequently, we could not ascertain neither the policies were applied uniformly nor individual's participation in the cost of vocational rehabilitation services was reasonable.	Recommendation: The Administration should improve its monitoring and/or enforcement procedures regarding the internal controls over prompt referrals, financial need evaluations, and the uniform application of the benefits granted. Questioned Costs: Could not be determined.	VRA agrees with the finding and the recommended procedures haves been in process of implementation. The Agency has a specific and uniform public policy for the determination of eligibility, (Normative Communication 2015-25 Procedure for Applying the Eligibility Criteria), the economic contribution (Normative Communication 2007-25 Application of the Economic Analysis for Contribution by Services) and services of maintenance (Normative Communication 2015-02 Procedure to Provide the Maintenance Service to Applicants / Consumers of the Vocational Rehabilitation Administration). However, normative communication will be developed, imparting new instructions because of the results of the Single Audit. Likewise, the level of regional supervision will intervene with the Vocational Rehabilitation Counselors in a pro-active manner, offering greater technical assistance when applying the eligibility criteria in 60 days or less. The Director of the Vocational Rehabilitation Counseling Services Center will establish a strategic plan to intervene with the Vocational Rehabilitation Counselors that violate this public policy.	Office of Vocational Rehabilitation Counseling Services (OSCRV) Counseling Service Centers in Vocational Rehabilitation (CSCRV) Regional Supervision Level

Section III – Federal Awards Findings and Questioned Costs

Finding Number: 2019-003

Compliance Requirement: Performance Reporting (RSA-911)

Condition: As part of our audit procedures over performance reporting requirement, we requested for examination 50 individual's files who exited the vocational rehabilitation program during fiscal year ended June 30, 2019. We founded the following exceptions:

a. In six (6) cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:

Case identification number (CIN)	Date per Notification Letter	Date Reported in RSA-911
10	03/04/2019	03/06/2019
11	09/19/2018	09/20/2018
12	06/07/2019	06/18/2019
14	03/26/2019	06/26/2019
22	05/21/2019	06/28/2019
25	03/25/2019	04/11/2019

b. In one (1) case, the RSA -911 was not available for examination.

Recommendation: The computerized system known as CRIS should have a double check procedure for sensitive or critical information as determined by the federal program. Also, a proper supervision or monitoring procedure should be performed to detect and correct, on a timely manner, any inconsistency noted.

Questioned Costs:

Not applicable

VRA does not accept this finding, as established in the following public policy in the Manual of Counseling Services in Vocational Rehabilitation:

Page 53. Section D.

D. Closing without Determining Eligibility

The CRV can determine closure without determining eligibility in the following situations: the applicant cannot be located, impediment is very severe, does not interest the services of the ARV, death of the applicant, has no physical / mental impediment, has no vocational impediment, of interest and cooperation, among other reasons. Once the termination determination is discussed with the applicant / parent / guardian / representative, the intention to close the service record in st. 08, in the next 30 calendar days. In the record of services there must be, at least, evidence of three appointments to the office and one to the home.

The applicant has up to 30 calendar days to react to the notification of the intention to close their service file, including filing a complaint or mediation in the relevant forums. If the

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c. In one (1) case, the notification letter was not available for examination. d. In four (4) cases, the IPE date per file do not agree with IPE date in RSA-911. e. In seventeen (17) cases, the date of employment per RSA-911 do not agree with documents on the participant's file. f. In one (1) case, the employment outcome at exit per RSA-911 do not agree with documents on the participant's file. g. In eight (8) cases the wage per hour do not agree between RSA-911 and the documents on the participant's file.		applicant does not communicate his CRV, or submit a complaint or mediation within 30 calendar days, the CRV will proceed to close the service request in st. 08 and will send the written notification to the applicant. The closures in st. 08 due to severity (reason 2) are revised once per year. Page 58. Section I. I. Closing without receiving services The CRV can make the decision to close the service file of the ARV (St. 10), for different reasons: it cannot be located, it has a very significant impediment, it does not wish to continue receiving services, death, a person confined in an institution, transferred to another agency or lack of cooperation, among other reasons. In the record of services there must be at least evidence of three appointments to the office and a home visit. The CRV will interpret the consumer / representative or send you in writing the intention to close the service record after determining eligibility, but before having developed the PIPE. The consumer / representative will have 30 days from receiving the notice of intention to close to react to this decision, including	

		filing a complaint or mediation in one of the appellative or mediation forums. If the consumer informs the CRV within 30 days of the notification of closure, which does not agree with the closure of their file, the CRV cites the consumer to discuss the decision. If the consumer does not contact their CRV, nor submit any complaint or mediation in an appellate or mediation forum within 30 calendar days, the CRV will proceed to close the service record at St. 30 and send written notification to the consumer. Pages 68 y 69. Section M. M. Closures The last stage of the process of providing services is closing the service file. In this section we will describe the most important aspects of the rehabilitated closure (st.26) and the not rehabilitated closure (st.28). Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26): 1. Amendments to the Rehabilitation Law (PL 105-220 of 1998) establish that the record of services of a consumer	

		who has obtained a job must be maintained working a minimum of 90 days. Once the CRV identifies that the consumer is working, it has the responsibility to negotiate and develop the preparatory amendment to close the service file with the consumer or his representative. The following aspects are included in the preparatory amendment: a. The employment goal in the Initial PIPE or in the last amendment, must be the occupation in which the consumer is working. b. The CRV will make an analysis that the employment goal is consistent with the strengths, resources, priorities, concerns, unique abilities, capabilities, interests and informed consumer selection. c. It will indicate the time that the consumer has been working, name and address of the employer, salary (equal to or more than the federal minimum wage), hours that he works (full or partial), if it is by contract and the duration thereof, marginal benefits (if applies), consumer satisfaction at work, if you are doing tasks	

		appropriately and negotiation to establish the projected date for closing the service record in the rehabilitated category (st.26). d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE. e. The Preparatory Amendment for closing the service record includes two services: (1) Counseling in Vocational Rehabilitation - Support for adjustment in the work scenario, identify progress and possible obstacles to keep working. (2) Follow-up on Employment - This includes at least one monthly follow-up that can be by telephone or any means of communication, making a total of three minimum procedures in 90 days. Of these at least, one must be a personal contact with the consumer (a home visit or an appointment to the office). The rehabilitated closure is the status to complete the services with a result of	

		employment. Compliance with the public policy of the ARV is ensured and the participation and the informed selection of the consumer on the individualized services of vocational rehabilitation is promoted always to achieve the goal in an integrated environment. The CRV will notify the consumer / representative of the intention to close their service file and of their right to appeal this decision, if they do not agree with it. Page 68 and 69. Paragraph P. P. Closing Not Rehabilitated After Receiving Services The CRV will proceed to close the service record when vocational rehabilitation services previously agreed and received through the Initial PIPE or its Amendments have been provided between the CRV and the consumer / representative, but without obtaining a result of employment. This decision must be based on the current public policy, the evidence and the corresponding justification to make the decision to close the service file in the category not rehabilitated.	

		The CRV does not prepare an Amendment to the PIPE for the closure not rehabilitated. The CRV will inform the consumer / representative, 30 days in advance, of the intention to close the service file. Prepare a closing annotation, stating the reason for closure, in a clear, specific and relevant manner that includes the consumer's acceptance of the closure of the service file. Some reasons to close the service file are: cannot be located, severity, refused services or their continuation, death, institutionalized consumer and lack of interest and cooperation, among others. The records of closed consumer services not rehabilitated due to severity (reason 2) must be reviewed within one year of their closure. However, the possibility of evaluating the documents and processes to send the closure intention and then the closure notification that coincides with the 911 report will be evaluated.	