# GOVERNMENT 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, 2020

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**INDEPENDENT AUDITORS' REPORT**

**To the Administrator and Management**
**of the Government 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 **Government 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, 2020, 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 |
| Aggregate remaining fund information | 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, 2020. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 68. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the **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, 2019 (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, 2020. 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, 2020, 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, 2020, 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 Government of Puerto Rico (the Government) 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 Government to match the federal awards. The Government's liquidity is severally affected since fiscal year 2015 and remains extremely limited, primarily, as a result of the Government's inability to access external resources of financing. In addition, on May 9, 2019 the Financial Oversight and Management Board for Puerto Rico approved and certified its own fiscal plan for the Government. 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 Government to match the federal awards, the limitation of the Government 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 **51** 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 page **54**, 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 March 29, 2021 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
March 29, 2021

Stamp No. 2772652 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, 2020. Please read it in conjunction with the financial statements and accompanying notes.

**Financial Highlights**

- Administration's total assets amounted to approximately $5.03 million, which represents an increase of approximately $0.24 million as compared to the balance for 2019.

- Administration's total liabilities amounted to $10.40 million, which represents an decrease of approximately $0.19 million as compared to prior year.

- Administration's total liabilities, on a government-wide basis, exceed its assets by approximately $5.37 million as of June 30, 2020.

**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 $5.37 million at June 30, 2020.

The Administration's business type activities net position amounted to $0.30 million at June 30, 2020.

The following table summarizes the statements of net assets as of June 30, 2020 and 2019.

| | Governmental Activities | | | Business Activities | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Current and other assets | $ 4.70 | $ 4.49 | $ 0.21 | $ (0.24) | $ 0.07 | $ (0.31) |
| Capital assets | 0.33 | 0.30 | 0.03 | 0.01 | 0.01 | (0.01) |
| **Total assets** | 5.03 | 4.79 | 0.24 | (0.23) | 0.08 | (0.32) |
| Account payables and other current liabilities | 3.69 | 2.64 | 1.05 | 0.04 | 0.04 | (0.00) |
| Central government advances | 0.62 | 2.07 | (1.45) | - | - | - |
| Accrued compensated absences | 3.54 | 3.23 | 0.31 | 0.02 | 0.02 | 0.00 |
| Accrued termination benefit | 2.55 | 2.65 | (0.10) | - | - | - |
| **Total liabilities** | 10.40 | 10.59 | (0.19) | 0.06 | 0.06 | 0.00 |
| Net invested in capital | 0.33 | 0.30 | 0.03 | 0.01 | 0.01 | (0.01) |
| Unrestricted | (5.70) | (6.10) | 0.40 | (0.30) | 0.01 | (0.31) |
| **Total net position (deficit)** | $ (5.37) | $ (5.80) | $ 0.43 | $ (0.30) | $ 0.02 | $ (0.32) |

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

- Total assets of the Administration's governmental activities increased by $0.24 million.
- Total governmental activities liabilities decreased by $0.19 million.
- Total governmental activities deficit decreased by $0.43 million.

The following table summarizes the statement of activities for the year ended June 30, 2020 and 2019.

| | Governmental Activities | | | Business Activities | | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **Change** | **2020** | **2019** | **Change** |
| **Revenues:** | | | | | | |
| Charges for products | $ - | $ - | $ - | $ 0.06 | $ 0.14 | $ (0.08) |
| Legislative appropriations | 13.35 | 13.35 | - | - | 0.37 | (0.37) |
| Other income | 0.01 | - | 0.01 | - | - | - |
| Intergovernmental-federal government | 43.68 | 48.16 | (4.48) | - | $ - | - |
| **Total Revenues** | 57.04 | 61.51 | (4.48) | 0.06 | 0.51 | (0.46) |
| **Program Expenses:** | | | | | | |
| Management and support | 36.65 | 32.04 | 4.62 | - | - | - |
| Vocational rehabilitation services | 19.35 | 28.71 | (9.36) | - | - | - |
| Older blind program | 0.29 | 0.40 | (0.12) | - | - | - |
| Independent life program | 0.33 | 0.35 | (0.02) | - | - | - |
| Program for the industry of blind and physical, mental and development disabilities persons | - | - | - | 0.36 | 0.63 | (0.27) |
| **Total Expenses** | 56.62 | 61.50 | (4.88) | 0.36 | 0.63 | (0.27) |
| Transfer out to central governmental | - | (0.02) | 0.02 | (0.02) | - | (0.02) |
| **Increase (decrease) in Net Position** | $ 0.42 | $ (0.01) | $ 0.42 | $ (0.32) | $ (0.12) | $ (0.21) |

During the year ended June 30, 2020, the Administration received $43.68 million from Federal Assistance Programs, representing 77% of total governmental activities funds received.

Also, the Administration expended $56.62 million for management and support and vocational rehabilitation services, representing 99% of total expenditures during the year ended June 30, 2020.

## Capital Assets

At the end of June 30, 2020, the Administration had $0.33 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 2019-2020 General Fund Budget amounted to $12,754,898 or $358,979 more than actual spending ($12,395,919).

For the year ending June 30, 2020, the General Fund Budget assigned to the Administration represents an increase of $2,321 as compared with fiscal year ended June 30, 2019.

| | 2020 | 2019 | Increase (decrease) |
|---|---|---|---|
| General Fund | $12,754,898 | $12,752,577 | $2,321 |

**Going Concern – Government of Puerto Rico**

The Government of Puerto Rico (Government) 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 Government'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 Government'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 the Administration, which are instrumentalities of the Government.

On May 3, 2017, the Government 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 Government 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 Government'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 Government of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Government must reduce the deficit by increasing revenues and reducing expenses substantially, including subsidies to the Administration of Puerto Rico.

On September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure $35 million of debt and other claims against the Government to $12 billion, the Public Building Authority, and the Employee Retirement System, and more than $50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Government's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statements were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

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

The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

**Puerto Rico COVID 19 Pandemic (DR-4493)**

On March 13, 2020, FEMA issued a nationwide Emergency Declaration in response to the ongoing Coronavirus COVID-19 pandemic. On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public lockdown necessary to prevent the effects of the coronavirus (COVID-19) and control the risk of contagion within the Island. Following CDC guidance, the Order includes several important quarantine and social distancing measures aimed at protecting the health and welfare of Puerto Rican citizens, including implementation of a curfew and the shutdown of non-essential commercial activity. Several Executives Orders have been issued since, being a February 8, 2021 the latest.

On March 27, 2020, the President of the United States of America declared that a major disaster exists in the Government of Puerto Rico and ordered Federal assistance to supplement Government and local recovery efforts in the areas affected by the Coronavirus Disease 2019 (COVID-19) pandemic beginning on January 20, 2020, and continuing. Federal funding is available to Government and eligible local governments and certain private nonprofit organizations for emergency protective measures, including direct Federal assistance, for all areas in the Government of Puerto Rico impacted by COVID-19.

**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, 2020. 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.

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## STATEMENT OF NET POSITION
## JUNE 30, 2020

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash in commercial banks and resources with fiscal agent | $ 7,826 | $ 7,767 | $ 15,593 |
| Receivables, net | - | 20,244 | 20,244 |
| Due from other government | 3,715,136 | - | 3,715,136 |
| Inventories | - | 146,102 | 146,102 |
| Prepaid expenses | 188,932 | 90 | 189,022 |
| Deposits | 379,064 | - | 379,064 |
| Internal Balances | 412,668 | (412,668) | - |
| Capital Assets, net | 328,290 | 5,412 | 333,702 |
| **Total Assets** | 5,031,916 | (233,053) | 4,798,863 |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenses | 3,688,776 | 39,155 | 3,727,931 |
| Central Government Advances | 619,651 | - | 619,651 |
| Liabilities Payable within one year: | | | |
| Compensated Absences | 2,883,892 | 23,105 | 2,906,997 |
| Voluntary Termination Benefits | 539,945 | - | 539,945 |
| Liabilities Payable over one year: | | | |
| Compensated Absences | 663,304 | - | 663,304 |
| Voluntary Termination Benefits | 2,007,368 | - | 2,007,368 |
| **Total Liabilities** | 10,402,936 | 62,260 | 10,465,196 |
| **Net Position** | | | |
| Invested in Capital Assets | 328,290 | 5,412 | 333,702 |
| Unrestricted (deficit) | (5,699,309) | (300,725) | (6,000,034) |
| **Total Net Position** | $ (5,371,019) | $(295,313) | $(5,666,332) |

See accompanying notes to basic financial statements.

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2020

| | | 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 | $ (36,653,109) | $ 43,267,092 | $ - | $ 6,613,983 | $ - | $ 6,613,983 |
| Vocational Rehabilitation Services | (19,348,031) | 13,197,354 | - | (6,150,677) | - | (6,150,677) |
| Older Blind Program | (289,697) | 304,120 | - | 14,423 | - | 14,423 |
| Independent Life Program | (327,999) | 283,294 | - | (44,705) | - | (44,705) |
| | (56,618,836) | 57,051,860 | - | 433,024 | - | 433,024 |
| **Business Type Activities:** | | | | | | |
| Program for the industry of blind and physically, mental and development | (356,110) | - | 57,068 | - | (299,042) | (299,042) |
| **Total Business-Type Activities** | (356,110) | - | 57,068 | - | (299,042) | (299,042) |
| Total | $ (56,974,946) | $ 57,051,860 | $ 57,068 | | | |
| Change in net position before transfers | | | | 433,024 | (299,042) | 133,982 |
| Transfer out central government | | | | - | (18,965) | (18,965) |
| **Change in net position** | | | | 433,024 | (318,007) | 115,017 |
| Net position (deficit), beginning | | | | (5,804,043) | 22,694 | (5,781,349) |
| Net position (deficit), ending | | | | $ (5,371,019) | $ (295,313) | $ (5,666,332) |

See accompanying notes to basic financial statements.

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## BALANCE SHEET – GOVERNMENTAL FUNDS
## AS OF JUNE 30, 2020

| | General | Federal Programs | Other Governmental Funds | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ - | $ - | $ 7,826 | $ 7,826 |
| Due from other government | - | 3,715,136 | - | 3,715,136 |
| Prepaid expenses | 188,933 | - | - | 188,933 |
| Due from other fund | 329,697 | 82,971 | - | 412,668 |
| Total assets | 518,630 | 3,798,107 | 7,826 | 4,324,563 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | 371,545 | 3,317,231 | - | 3,688,776 |
| Central Government Advances | 138,775 | 480,876 | - | 619,651 |
| Total liabilities | 510,320 | 3,798,107 | - | 4,308,427 |
| Fund balances (Deficit) | | | | |
| Unassigned | 8,311 | - | 7,826 | 16,137 |
| Total fund balances (deficit) | 8,311 | - | 7,826 | 16,137 |
| Total liabilities and fund balances | $ 518,631 | $ 3,798,107 | $ 7,826 | $ 4,324,564 |

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO

VOCATIONAL REHABILITATION ADMINISTRATION

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2020

| | |
|---|---|
| **Total fund balances of governmental fund** | $ 16,137 |
| 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. | 328,289 |
| Deposits in the governmental activities are not financial resources and therefore, are not reported in the fund financial statements. | 379,064 |
| Liabilities of accrued compensated absences are not to be paid with current financial resources and therefore, not reported in the fund financial statements. | (3,547,196) |
| Liability of accrued termination benefits are not to be paid with current financial resources and therefore, not reported in the fund financial statements. | (2,547,313) |
| **Net position of governmental activities** | $ (5,371,019) |

See accompanying notes to basic financial statements.

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2020

| | General | Federal Programs | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Legislative appropriations | $ 12,754,898 | $ 600,020 | $ - | $ 13,354,918 |
| Federal grants | - | 43,682,375 | - | 43,682,375 |
| Other income | - | - | 14,567 | 14,567 |
| Total Revenues | 12,754,898 | 44,282,395 | 14,567 | 57,051,860 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Management and Support | 2,950,880 | 33,539,870 | 6,741 | 36,497,491 |
| Vocational Rehabilitation Services | 9,571,208 | 9,629,711 | - | 19,200,919 |
| Older Blind Program | - | 289,697 | - | 289,697 |
| Independent Life Program | - | 327,999 | - | 327,999 |
| Capital expenditures | - | 495,118 | - | 495,118 |
| Total Expenditures | 12,522,088 | 44,282,395 | 6,741 | 56,811,224 |
| Net change in fund balances | 232,810 | - | 7,826 | 240,636 |
| Fund balance (deficit), beginning | (224,499) | - | - | (224,499) |
| Fund balance, ending | $ 8,311 | $ - | $ 7,826 | $ 16,137 |

See accompanying notes to basic financial statements.

GOVERNMENT 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, 2020

| | |
|---|---|
| **Net change in fund balances-total governmental fund** | **$240,636** |
| 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. | 27,618 |
| Governmental funds report deposits 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. | 379,064 |
| 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. | (313,787) |
| 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. | 99,493 |
| **Change in net position of governmental activities** | **$433,024** |

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF NET POSITION – PROPRIETARY FUND
AS OF JUNE 30, 2020

| | Business-Type Activities |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and resources with fiscal agent | $ 7,767 |
| Receivables (net) | 20,244 |
| Inventories | 146,102 |
| Prepaid | 90 |
| **Total current assets** | 174,203 |
| **Noncurrent Assets:** | |
| Capital assets, net | 5,412 |
| **Total assets** | 179,615 |
| **Liabilities and Net Position** | |
| Current liabilities: | |
| Accounts payable | 32,955 |
| Due to other funds | 412,668 |
| Payroll taxes and withholdings | 6,200 |
| Accrued compensated absences, current portion | 23,105 |
| **Total current liabilities** | 474,928 |
| **Net Position** | |
| Net Investment in capital assets | 5,412 |
| Unrestricted (deficit) | (300,725) |
| **Total net position (deficit)** | $ (295,313) |

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

| | Business-Type Activities |
|---|---|
| **Operating revenues** | |
| Net sales | $ 57,068 |
| **Cost of sales** | |
| Materials | 34,532 |
| Direct Labor | 149,564 |
| Indirect costs | 51,183 |
| Total cost of sales | 235,279 |
| **Excess of cost over revenues** | (178,211) |
| **General and administrative expenses** | (120,831) |
| **Operating loss** | (299,042) |
| **Transfers to Central Government** | (18,965) |
| **Change in net position** | (318,007) |
| **Net position, beginning** | 22,694 |
| **Net position (deficit), ending** | $ (295,313) |

See accompanying notes to basic financial statements.

GOVERNMENT OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

| | Busines-Type Activities |
|---|---|
| **Cash flows from operating activities:** | |
| Receipts from customers | $ 106,743 |
| Receipts from appropriations central government | 68,346 |
| Payment to suppliers and employees | (399,347) |
| Advances from other funds | 208,542 |
| Net cash flows used in operating activities | (15,716) |
| Net decrease in cash and resources with fiscal agent | (15,716) |
| **Cash beginning of year** | 23,483 |
| **Cash end of year** | $ 7,767 |
| **Reconciliation of operating loss to net cash used in operating activities:** | |
| Operating loss | $ (313,959) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 7,104 |
| Change in operating asses and liabilities: | |
| Decrease(Increase) in: | |
| Accounts receivable | 49,675 |
| Inventory | 30,485 |
| Increase (decrease) in: | |
| Accounts payable | (1,114) |
| Due to other funds | 208,142 |
| Other liabilities | 3,948 |
| **Net cash used in operating activities** | $ (15,719) |

See accompanying notes to basic financial statements.

## Note 1 – Governmental Environment

### Organization

The Vocational Rehabilitation Administration (the Administration) is an agency of the Government 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 Government of Puerto Rico until June 10, 2000, when Law No. 97, transferred it to the Department of Labor and Human Resources of the Government 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 Government of Puerto Rico governments. Legislative appropriations are collected annually to match the Federal Awards. During the year ended June 30, 2020, 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 Government 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 Government 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, 2020:

**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 Government 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, 2020.

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 Government 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, 2020, 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, 2020. Employees hired on February 4, 2020 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 2019 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.

**Fund Balance Reporting**

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.

**Fund Balance Reporting**

Definitions of other governmental fund types also have been modified for clarity and consistency 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**

During the fiscal year ended June 30, 2018, the Administration was required to implement **GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pension***, however, the Administration determined not to implement it. The Administration implemented partially **GASB No. 85, *Omnibus 2017***, as follows:

**GASB Statement No. 85, *Omnibus 2017***. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics: (1) blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) reporting amounts. previously reported as goodwill and "negative" goodwill, (3) classifying real estate held by insurance entities, (4) measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (5) timing of the measurement of pension or OPEB liabilities and expenditures, (6) recognized in financial statements prepared using the current financial resources measurement focus, (7) recognizing on-behalf payments for pensions or OPEB in employer financial statements, (8) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (9) classifying employer-paid member contributions for OPEB, (10) simplifying certain aspects of the alternative measurement method for OPEB and (11) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. However, the Administration partially implemented this standard, as areas related to OPEB were not implemented.

The requirements of this Statement are effective for reporting periods beginning after June 30, 2017.

**GASB Statement No. 86, *Certain Debt Extinguishment Issues*.** The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

**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, 2020.

**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, 2020. 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, 2020. 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, 2020 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.

In 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. 2020-3, *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 2020-3, 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.

**GASB Statement No. 93, *Replacement of Interbank Offered Rates*.** Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (LIBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.

- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.

- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR
  as the rate upon which variable payments depend. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

**GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.** The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

- Statement No. 83, *Certain Asset Retirement Obligations*.
- Statement No. 84, *Fiduciary Activities*.
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

- Statement No. 90, *Majority Equity Interests.*
- Statement No. 91, *Conduit Debt Obligations*.
- Statement No. 92, *Omnibus 2020*.
- Statement No. 93, *Replacement of Interbank Offered Rates*.
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018.*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019.*
- Implementation Guide No. 2019-2, Fiduciary Activities.

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

**Statement No. 87, *Leases*.**
Implementation Guide No. 2019-3, *Leases*.
The requirements of this Statement are effective immediately. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

**GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*.**
This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset— an intangible asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability.

A government should recognize the subscription liability at the commencement of the **GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*** subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

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

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement supersedes the remaining provisions of **Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans**, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performed the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with **Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance***.

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, 2020, 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 with: | | | |
| Fiscal Agent | $7,767 | $7,767 | $ - |
| Total unrestricted cash | $7,767 | $7,767 | $ - |

**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 Government of Puerto Rico, pursuant to Act. No. 230 of July 23, 1974, as amended, known as the "Accounting Law of the Government 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 Government of Puerto Rico to meet the Administration's current operating requirements.

**Note 5 – Risk Financing**

The Government of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims and other losses for the Administration. The Administration reimburses to the Government 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 Government 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, 2020, that were reimbursed by the Federal Government during the fiscal year ending June 30, 2020.

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, 2020 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 | 244,852 | 116,054 | - | 360,906 |
| Total Capital assets being depreciated | 11,072,809 | 116,054 | - | 11,188,863 |
| Less accumulated depreciation: | | | | |
| Equipment | 9,951,987 | 15,768 | - | 9,967,755 |
| Furniture | 699,408 | 35,964 | - | 735,372 |
| Vehicles | 120,742 | 36,705 | - | 157,447 |
| Total accumulated depreciation | 10,772,137 | 88,437 | - | 10,860,574 |
| Governmental activities capital assets, net | $ 300,672 | $ 27,617 | $ - | $ 328,289 |

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 | 89,013 | 1,541 | - | 90,554 |
| Furniture | 124,870 | 2,079 | - | 126,949 |
| Vehicles | 38,800 | - | - | 38,800 |
| Building improvements | 443,523 | 3,487 | - | 447,010 |
| Total accumulated depreciation | 696,206 | 7,107 | - | 703,313 |
| Business type activities capital assets, net | $ 12,519 | $ (7,107) | $ - | $ 5,412 |

## 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 General Fund. 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, 2020 consists of the following activity:

| | Beginning Balance | Net Change | Ending Balance | Due within one year |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Accrued vacations | $3,233,409 | $313,787 | $3,547,196 | $2,883,892 |
| Business - Type Activities: | | | | |
| Accrued vacations | $ 19,157 | $ 3,948 | $ 23,105 | $ 23,105 |

**Note 11 – Voluntary Termination Benefits**

On July 2, 2010, the Government 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 $2,547,313 in the Statement of Net Position as of June 30, 2020 and a reduction of $99,493 in the Statement of Activities for the year ended June 30, 2020. At June 30, 2020, 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 | $2,646,806 | $ - | $ (99,493) | $2,547,313 | $539,945 |

**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 Government. Substantially all fulltime employees of the Government's primary government, and certain Administration of Puerto Rico and certain component units of the Government not having their own postemployment benefit plan, are covered by the OPEB. Government 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 Government 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 Government'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 Government 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, 2019 (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, 2020. 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 – Retirement System Reform**

Act No. 106 of August 23, 2017 ("Act 106") was enacted to reform the Government 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,
- Government'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 Government Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Government, 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, 2020. 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, 2020, 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, 2019 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, 2020. In addition, applicable disclosures and required supplementary information have been omitted.

## Note 13 – Contingencies

**Litigation and Claims**

The Government 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 Government of Puerto Rico, present and former employees, directors and other may be represented by the Department of Justice of the Government of Puerto Rico. Any adverse claims to the defendants are to be paid by the Government of Puerto Rico General Fund.

However, the Secretary of the Treasury of the Government 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, 2020 amounted to $3,493,257. Future operating lease commitments are scheduled as follows:

| Year Ending June 30, | Amount |
|---|---|
| 2021 | $2,951,700 |
| 2022 | 1,558,811 |
| 2023 | 1,444,058 |
| 2024 | 549,652 |
| 2025 | 104,532 |
| 2026-2043 | 1,556,233 |
| | $8,164,986 |

## Note 15 – Uncertainty

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

**Note 15 – Uncertainty (Continued)**

The Government's liquidity is severally affected since fiscal year 2016 and remains extremely limited, primarily, as a result of the Government'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 Government. 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 Government to match the federal awards, the limitation of the Government to meet its obligations on a timely manner, may affect the Administration's operations in the near future.

**Note 16 – Subsequent Events**

Management has evaluated subsequent events through March 29,2021, date in which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)
## YEAR ENDED JUNE 30, 2020

| | Original | Budget Amounts Final | Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Management and Support | $3,280,409 | $3,280,409 | $3,280,409 | $ - |
| Vocational rehabilitation services | 9,474,489 | 9,474,489 | 9,474,489 | - |
| **Total** | 12,754,898 | 12,754,898 | 12,754,898 | - |
| **CHARGES TO APPROPIATIONS** | | | | |
| Management and Support | 3,280,409 | 3,280,409 | 2,921,430 | 358,979 |
| Vocational rehabilitation services | 9,474,489 | 9,474,489 | 9,474,489 | - |
| **Total** | 12,754,898 | 12,754,898 | 12,395,919 | 358,979 |
| **Excess (deficiency) of resources over charges to appropriations** | $ - | $ - | $ 358,979 | $ 358,979 |

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

**Note 1 – General**

As an Executive Agency of the Government 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 Government of Puerto Rico's Office of Management and Budget (PROMB).

b. After approval by PROMB, the budget project is incorporated into the Government 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 1$^{st}$ 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 Government 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 Government 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 of resources over charges to appropriations from the budgetary comparison schedule | $ 358,979 |
| 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. | (126,169) |
| Total excess of revenues over expenditures in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance. | $ 232,810 |

# GOVERNMENT OF PUERTO RICO
# VOCATIONAL REHABILITATION ADMINISTRATION
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## YEAR ENDED JUNE 30, 2020

| Federal Grantor/Pass-Through Grantor and 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 | H126A180080 | $ - | $ 43,664,699 |
| | | H126A190080 | | |
| | | H126A200080 | | |
| Independent Living Services for Older Individuals who are Blind-States Grants | 84.177 | H177B1190052 | | |
| | | H177B1200052 | - | 289,697 |
| **Sub - total U.S. Department of Education** | | | **-** | **43,954,396** |
| **U.S. Department of Health and Human Services:** | | | | |
| Direct programs: | | | | |
| ACL Independent Living States Grants | 93.369 | 19G1PRILSG / 20G1PRILSG | - | 327,999 |
| **Sub - total U.S. Department of Health and Human Services** | | | **-** | **327,999** |
| **Total Expenditures of Federal Awards** | | | **$ -** | **$ 44,282,395** |

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, 2020. 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, 2020 amounted to $ 43,664,699.

**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 Government 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 **Government 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, 2020, and the related notes to the financial statements, which collectively comprise **the Administration's** basic financial statements and have issued our report thereon dated March 29, 2021. 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 **2020-001**, 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 **2020-001**.

We noted certain other matters that we reported to management of **the Administration** in a separate letter dated March 29, 2021.

**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
March 29, 2021

Stamp No. 2772653 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

**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 Government 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 **Government 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, 2020. 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)**

**Basis for Qualified Opinion on CFDA No. 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States Program**

As described in the accompanying schedule of findings and questioned costs, the **Administration** did not comply with requirements regarding **CFDA No. 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States Program** as described in finding number **2020-002** for **Matching and Maintenance of Effort**. Compliance with such requirements is necessary, in our opinion, for the **Administration** to comply with the requirements applicable to that program.

**Qualified Opinion on CFDA No. 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States Program**

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, the **Administration** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Rehabilitation Services – Vocational Rehabilitation Grants to States Program for the year ended June 30, 2020.

**Report on Internal Control Over Compliance**

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

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

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

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

A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-002 to be material weakness.

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.

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.

López-Vega CPA, PSC

**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico
March 29, 2021

Stamp No. 2772654 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

**Section I – Summary of Auditors' Results**

***Financial Statements***

| **Opinion Unit:** | **Type of Opinion:** |
|---|---|
| Governmental Activities | Qualified |
| Business-type Activities | Unmodified |
| General Fund | Unmodified |
| Federal Programs Fund | Unmodified |
| Aggregate remaining fund information | 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: Qualified

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: $1,309,941

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

**Section II – Financial Statements Findings**

| **Finding Reference** | **2020-001** |
|---|---|
| **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 2020-001 (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, 2020 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, 2020. 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, 2020.

**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: 2020-002**

**Agency:** U.S. Department of Education

**Federal Program:** Rehabilitation Services-Vocational Rehabilitation Grants to States

**CFDA:** 84.126

**Grant Number:** H126A19080/H126A200080

**Grant Period:** October 1, 2018 - September 30, 2019
October 1, 2019 - September 30, 2020

**Compliance Requirement:** Matching, Maintenance of Effort

**Category:** Material Weakness in Internal Control (MW) and Noncompliance (NC)

**Criteria**

34 CFR, Part 361, Section 60 (a) (1) – *Matching requirements – Federal share - General Requirements,* establishes that the State share of expenditures made by the State VR agency under the VR services portion of the Unified or Combined State Plan, including expenditures for the provision of VR services and the administration of VR services portion of the Unified or Combined State Plan, is 21.3 percent (29 USC 705 (14) and 731 (a) (1)).

34 CFR, Part 361, Section 62 (a) (1) – *Maintenance of Effort requirements – General Requirements,* establishes that the Secretary reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year, two years prior to the previous fiscal year.

**Condition**

The Administration did not comply with the matching requirement for program years 2019 and 2020. Also, the Administration has a MOE deficit for program years 2019 and 2020 totaling $569,600 and $12,178,902, respectively.

**Section III-Federal Awards Findings and Questioned Costs**

**Finding Number: 2020-002 (Continued)**

**Effect**

The Administration is not in compliance with the federal regulations on matching and maintenance of effort and moreover, it expects to be in non-compliance. The Administration's subsequent grant amounts are being reduced by the MOE deficit determined for specific program years, as recalculated by the grantor.

**Cause**

Due to the financial crisis and the implementation of PROMESA Act, which put budgetary constraints on the Commonwealths' budget, the Administration has not been awarded the necessary amounts of non-Federal funds in order to meet the matching and MOE requirements.

**Context**

A sample of the last two program years 2019 and 2020 calculations were selected for audit. The test found both sampled calculations were in non-compliance. Our sample was a statistically valid sample.

**Prior Year Audit Finding**

Not applicable

**Recommendation**

The Administration should plan along with the Puerto Rico Office of Management and Budget and the Financial Oversight and Management Board for Puerto Rico the way it can recover the Programs' federal funds. It is also important to notify the US Department of Education this situation since it is out of control of the Administration.

**Questioned Costs**

Not applicable.

**Management's Response**

See Grantee´s Corrective Action Plan

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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 |
|---|---|---|---|---|---|
| 2019-001 | 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.<br>In addition, the Administration's financial statements do not disclose the descriptive | 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. | None | Not resolved yet. See current year finding **2020-001.** |

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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.<br><br>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 Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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 Government Auditing Standards and OMB Super Circular Uniform Guidance

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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 |
|---|---|---|---|---|---|
| | | | | | |
| 2019-002 | 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, 2019. We found the following exceptions:<br><br>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 | 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 | Could not be determined. | Corrective action was taken. |

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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.<br><br>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. | Administration).<br><br>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. | | |

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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 |
|---|---|---|---|---|---|
| | | | | | |
| 2019-003 | Performance Reporting (RSA-911) | 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:<br><br>a. In six (6) 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:<br><br>Page 53. Section D.<br><br>D. Closing without Determining Eligibility<br><br>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 | Not applicable | Corrective action was taken. |

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Contact Person: Grisel Matos Padilla – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

<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>10</td><td>03/04/2019</td><td>03/06/2019</td></tr>
<tr><td>11</td><td>09/19/2018</td><td>09/20/2018</td></tr>
<tr><td>12</td><td>06/07/2019</td><td>06/18/2019</td></tr>
<tr><td>14</td><td>03/26/2019</td><td>06/26/2019</td></tr>
<tr><td>22</td><td>05/21/2019</td><td>06/28/2019</td></tr>
<tr><td>25</td><td>03/25/2019</td><td>04/11/2019</td></tr>
</table>
<br>b. In one (1) case, the notification letter was not available for examination.<br>c. In four (4) cases, the IPE date per file do not agree with IPE date in RSA-911.<br>d. In seventeen (17) cases, the date of employment per RSA-911 do not agree with documents on the participant's file.<br>e. In one (1) case, the employment outcome at exit per RSA-911 do not</td><td>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.<br><br>The applicant has up to 30 calendar days to react to the</td><td></td><td></td></tr>
</table>

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| | | agree with documents on the participant's file.<br>f. In eight (8) cases the wage per hour do not agree between RSA-911 and the documents on the participant's file. | 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.<br><br>Page 58. Section I.<br>I. Closing without receiving services | | |

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| | | | 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.<br>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 | | |

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| | | | 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.<br><br>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 | | |

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| | | | 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.<br><br>Pages 68 y 69. Section M.<br><br>M. Closures<br><br>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 | | |

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| | | | closure (st.28).<br><br>Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26):<br><br>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 | | |

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| | | | or his representative. The following aspects are included in the preparatory amendment:<br><br>a. The employment goal in the Initial PIPE or in the last amendment, must be the occupation in which the consumer is working.<br>b. The CRV will make an analysis that the employment goal is consistent with the strengths, resources, priorities, concerns, unique abilities, capabilities, interests | | |

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| | | | and informed consumer selection.<br>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 | | |

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| | | | date for closing the service record in the rehabilitated category (st.26).<br>d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE.<br>e. The Preparatory Amendment for closing the service record includes two services:<br>(1) Counseling in Vocational Rehabilitation - Support for adjustment | | |

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| | | | in the work scenario, identify progress and possible obstacles to keep working.<br>(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). | | |

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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.<br><br>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. | | |

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| | | | Page 68 and 69. Paragraph P.<br><br>P. Closing Not Rehabilitated After Receiving Services<br><br>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 | | |

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| | | | the service file in the category not rehabilitated.<br><br>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, | | |

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| | | | 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.<br><br>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. | | |
| 2018-001 | Implementation of Requirements Set | The Administration has not implemented the accounting and financial reporting | The Administration will closely monitor the actions of the | None | Not resolved |

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| | Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC) | 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.<br><br>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- | Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard. | | yet. See current year finding **2020-001.** |

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| | | 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.<br><br>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 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 | | | |

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| | | 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. | | | |
| 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:<br><br>a. Two instances in which the eligibility determination was not made within 60-days period and two instances in which the period | VRA agrees with the finding and the recommended procedures haves been in process of implementation.<br><br>The Agency has a specific and uniform public policy for the determination of eligibility, (Normative Communication 2015-25 Procedure for | Could not be determined | Corrective action was taken. |

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| | | 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 documentation that an extended evaluation was necessary.<br><br>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 | 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).<br><br>However, normative communication will be developed, imparting new instructions because of the results of the Single Audit. Likewise, the level of regional | | |

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| | | individual's participation in the cost of vocational rehabilitation services was reasonable.<br><br>c. There was one instance in which the maintenance benefit (food) were inconsistently awarded. | 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. | | |
| 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 | VRA does not accept this finding, as established in the following public policy in the Manual of Counseling Services in Vocational Rehabilitation: | Not applicable | Corrective action was taken. |

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| | | year ended June 30, 2018. We found the following exceptions:<br><br>a. In four cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:<br><br>Case identification number (CIN) / Date per Notification Letter / Date Reported in RSA-911:<br>13 / 6/4/2018 / 6/12/2018<br>14 / 6/4/2018 / 6/12/2018<br>15 / 11/10/2016 / 4/18/2018<br>16 / 1/30/2018 / 3/13/2018<br>17 / 12/9/2016 / 3/8/2018<br>18 / 3/19/2018 / 5/14/2018<br><br>b. In three cases, the RSA-911 was not available for examination.<br>c. In three cases, the notification letter was not available for examination | Page 53. Section D.<br><br>D. Closing without Determining Eligibility<br><br>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 | | |

| Case identification number (CIN) | Date per Notification Letter | Date Reported in RSA-911 |
|---|---|---|
| 13 | 6/4/2018 | 6/12/2018 |
| 14 | 6/4/2018 | 6/12/2018 |
| 15 | 11/10/2016 | 4/18/2018 |
| 16 | 1/30/2018 | 3/13/2018 |
| 17 | 12/9/2016 | 3/8/2018 |
| 18 | 3/19/2018 | 5/14/2018 |

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| | | | / 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.<br><br>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 | | |

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| | | | 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.<br>Page 58. Section I.<br><br>I. Closing without receiving services<br><br>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 | | |

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| | | | institution, transferred to another agency or lack of cooperation, among other reasons.<br>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 | | |

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|---|---|---|---|---|---|
| | | | mediation in one of the appellative or mediation forums.<br><br>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. | | |

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| | | | Pages 68 y 69. Section M.<br><br>M. Closures<br><br>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).<br><br>Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26):<br><br>1. Amendments to the | | |

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| | | | 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 toclose the service file with the consumer or his representative. The following aspects are included in the preparatory amendment:<br><br>a. The employment goal in the Initial PIPE or in the last amendment, must be the | | |

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| | | | occupation in which the consumer is working.<br>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.<br>c. It will indicate the time that the consumer has been working, name and address of the employer, salary | | |

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Contact Person: Grisel Matos Padilla – 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 |
|---|---|---|---|---|---|
| | | | (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). | | |

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – 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 |
|---|---|---|---|---|---|
| | | | d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE.<br><br>e. The Preparatory Amendment for closing the service record includes two services:<br>1. Counseling in Vocational Rehabilitation - Support for adjustment in the work scenario, identify | | |

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

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

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| | | | progress and possible obstacles to keep working.<br>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). | | |

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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.<br><br>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. | | |

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|---|---|---|---|---|---|
| | | | Page 68 and 69. Paragraph P.<br><br>P. Closing Not Rehabilitated After Receiving Services<br><br>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 | | |

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Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

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|---|---|---|---|---|---|
| | | | the service file in the category not rehabilitated. | | |
| 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:<br><br>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 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 | 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 | None | The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred |

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| Original Finding Number | Finding | Condition | Corrective Actions for findings not corrected or partially corrected | Questioned Cost | Status |
|---|---|---|---|---|---|
| | | time; nor documentation that an extended evaluation was necessary.<br><br>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.<br><br>c. There were three instances in which the maintenance benefit (food) were inconsistently awarded. | Vocational Rehabilitation Administration).<br>However, normative communication will be developed, imparting new instructions. | | was submitted to the FAC. |
| 2017-004 | Maintenance of Effort (MOE) | The Administration has a MOE deficit for program years 2016 and 2017 totaling | The VRA agency has already informed the Federal Agency | None | The audit finding |

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| Original Finding Number | Finding | Condition | Corrective Actions for findings not corrected or partially corrected | Questioned Cost | Status |
|---|---|---|---|---|---|
| | | $2,642,887 and $2,094,054, respectively. | 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. | | does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the FAC. |

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

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Principal Executive: Lcda. Sonia J. Hernández Méndez

Contact Person: Grisel Matos Padilla – Auxiliary Administrator of Management Affairs Phone: (787) 729-0160

<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:<br>a. In four cases the date of exit per notification letter differs from the date reported in RSA-911 as follows:<br>
<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:<br>Page 53. Section D.<br>D. Closing without Determining Eligibility<br>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>The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the</td>
</tr>
</table>

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

Audit Period: July 1, 2019 – June 30, 2020 Fiscal Year: 2019-2020

Principal Executive: Lcda. Sonia J. Hernández Méndez

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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).<br><br>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.<br>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 | | FAC. |

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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.<br><br>I. Closing without receiving services<br>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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|---|---|---|---|---|---|
| | | | 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.<br>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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|---|---|---|---|---|---|
| | | | 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.<br>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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|---|---|---|---|---|---|
| | | | 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.<br>Pages 68 y 69. Section M.<br>M. Closures.<br>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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|---|---|---|---|---|---|
| | | | Amendment to the PIPE for Closing the File of Services in the Rehabilitated Category (st.26):<br>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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|---|---|---|---|---|---|
| | | | representative. The following aspects are included in the preparatory amendment:<br>a. The employment goal in the Initial PIPE or in the last amendment, must be the occupation in which the consumer is working.<br>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.<br>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).<br>d. The CRV will analyze the possibility of post-employment services. The analysis is documented in the "Analysis" function of the PIPE.<br>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.<br>(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).<br>The rehabilitated closure is the status to complete the services with a result of employment. | | |

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|---|---|---|---|---|---|
| | | | 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.<br><br>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.<br>Page 68 and 69. Paragraph P.<br>P. Closing Not Rehabilitated After Receiving Services | | |

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|---|---|---|---|---|---|
| | | | 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.<br>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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|---|---|---|---|---|---|
| | | | 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: H126A190080 / H126A200080
Fiscal year ended: June 30, 2020

| Finding Number and Compliance Requirement & Condition | Recommendations and Questioned Costs | Corrective Action Taken | Department and Responsible Officials |
|---|---|---|---|
| <u>Section II – Financial Statements Findings</u><br><br>**<u>Finding Reference 2020-001</u>**<br><br>**Requirement:** Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75 (MW) & (NC)<br>**Type of finding:** Material Weakness in Internal Control (MW), Instance of Noncompliance (NC)<br><br>**Criteria**<br><br>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:<br>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.<br><br>Questioned Costs:<br>None | VRA Accepts the finding.<br>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 2020-001 (Continued)**<br><br>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.<br><br>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**<br><br>**Finding Reference 2020-001 (Continued)**<br><br>**Condition**<br><br>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.<br><br>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**<br><br>**<u>Finding Reference 2020-001 (Continued)</u>**<br><br>**Condition (Continued)**<br><br>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. | | | |

| | | | |
|---|---|---|---|
| <u>Section III – Federal Awards Findings and Questioned Costs</u><br><br>**<u>Finding Reference 2020-002</u>**<br><br>**Requirement:** Matching, Maintenance of Effort<br>**Type of finding:** Material Weakness in Internal Control (MW) and Noncompliance (NC)<br><br>**Criteria**<br>34 CFR, Part 361, Section 60 (a) (1) – *Matching requirements – Federal share - General Requirements,* establishes that the State share of expenditures made by the State VR agency under the VR services portion of the Unified or Combined State Plan, including expenditures for the provision of VR services and the administration of VR services portion of the Unified or Combined State Plan, is 21.3 percent (29 USC 705 (14) and 731 (a) (1)).<br><br>34 CFR, Part 361, Section 62 (a) (1) – *Maintenance of Effort requirements – General Requirements,* establishes that the Secretary reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year, two years prior to the previous fiscal year.<br><br>**Condition** | **Recommendation**<br><br>The Administration should plan along with the Puerto Rico Office of Management and Budget and the Financial Oversight and Management Board for Puerto Rico the way it can recover the Programs' federal funds. It is also important to notify the US Department of Education this situation since it is out of control of the Administration.<br><br>**Questioned Costs**<br><br>Not applicable. | VRA Accepts the finding.<br>The Administration makes great effort and trying to comply with the matching requirement, however it the funds provided by the General Fund through Joint resolutions have been decreasing due to Fiscal situations on the state level. Maintenance of effort is a direct consequence of not reaching the expenses required for match purposes. The Agency will continue all outreach activities within our state legislature and the State Office of management and budget for further state funds assignment, in order, to comply with the requirements and gain more access to funds assigned by formula grant. | Budget Division/ Administration Office |

| | | | |
|---|---|---|---|
| The Administration did not comply with the matching requirement for program years 2019 and 2020. Also, the Administration has a MOE deficit for program years 2019 and 2020 totaling \$569,600 and \$12,178,902, respectively.<br><br>**Section III-Federal Awards Findings and Questioned Costs**<br><br>**Finding Number: 2020-002 (Continued)**<br><br>**Effect**<br><br>The Administration is not in compliance with the federal regulations on matching and maintenance of effort and moreover, it expects to be in non-compliance. The Administration's subsequent grant amounts are being reduced by the MOE deficit determined for specific program years, as recalculated by the grantor.<br><br>**Cause**<br><br>Due to the financial crisis and the implementation of PROMESA Act, which put budgetary constraints on the Commonwealths' budget, the Administration has not been awarded the necessary amounts of non-Federal funds in order to meet the matching and MOE requirements.<br><br>**Context**<br><br>A sample of the last two program years 2019 and 2020 calculations were selected for audit. The | | | |

| | | | |
|---|---|---|---|
| test found both sampled calculations were in non-compliance. Our sample was a statistically valid sample.<br><br>**Prior Year Audit Finding**<br><br>Not applicable | | | |