



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION  
ADMINISTRATION**

**BASIC FINANCIAL STATEMENTS  
WITH THE ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE  
SINGLE AUDIT ACT**

**YEAR ENDED  
JUNE 30, 2009**

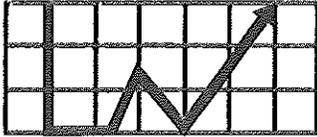
**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**YEAR ENDED JUNE 30, 2009**

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**López-Vega, CPA, PSC**

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

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS**

**Commonwealth of Puerto Rico  
Vocational Rehabilitation Administration  
San Juan, Puerto Rico**

We have audited the accompanying basic financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico Vocational Rehabilitation Administration (the Administration), as of June 30, 2009 and for the year then ended, which collectively comprise the Administration's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund the aggregate remaining fund information of the Commonwealth of Puerto Rico Vocational Rehabilitation Administration as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated as of March 30, 2010 and for the year ended June 30, 2009 on our consideration of the Administration's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison schedule are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 Audits of States, Local Governments, and Non-Profit Organization, and is also not a required part of the basic financial statements of the Administration. The combining and individual non major funds financial statements and the Schedule of Expenditures of Federal Awards have been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico  
March 30, 2009  
Stamp No. 2407093 of the  
Puerto Rico Society of Certified  
Public Accountants was affixed to  
the record copy of this report.



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**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**Management Discussion and Analysis**

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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, 2009. Please read in conjunction with the financial statements.

**Financial Highlights**

- Total assets of the Administration amounted to approximately \$14.240 millions, which represents an increase of approximately \$3.430 millions compared with the balance for 2008.
- Total liabilities of the Administration amounted to \$23.930 millions. As of June 30, 2009, the balance of compensated absences payable represents 52% of the total liabilities.
- Total liabilities of the Administration, on a government-wide basis, exceed its assets by approximately \$9.690 millions as of June 30, 2009.

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets 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.

**Reporting the Administration as a Whole**

**The Statement of Net Assets and the Statement of Activities**

Our financial analysis commences with the Statement of Net Assets 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 of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Administration's net assets and changes in them. You can think of the Administration's net assets (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 assets are one indicator of whether its financial health is improving or deteriorating.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**Management Discussion and Analysis (Continued)**

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**Reporting the Administration as a Whole (Continued)**

The Statement of Net Assets and the Statement of Activities are commonly divided into the following activity:

- **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.

**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 Fund and the General Fund, Non major, 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 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. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental fund in a reconciliation shown in the fund financial statements.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

Management Discussion and Analysis (Continued)

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**The Administration as a Whole**

The Administration's governmental net assets (deficit) were (\$9.69) million at June 30, 2009. This deficit is mainly due to vacation and sick leave accrual that were recorded to convert the Administration's basis of accounting to accrual. The following table summarizes the net assets at June 30, 2009.

	Governmental Activities 2009	Governmental Activities 2008
Current and other assets	12.35	8.67
Capital assets	<u>1.89</u>	<u>2.14</u>
<b>Total assets</b>	<b><u>14.24</u></b>	<b><u>10.81</u></b>
Accounts payable and other current liabilities	5.24	2.72
Central Government Advances	6.24	8.71
Other liabilities	<u>12.45</u>	<u>14.74</u>
<b>Total liabilities</b>	<b><u>23.93</u></b>	<b><u>26.17</u></b>
Invested in capital assets	1.89	2.14
Restricted	1.33	1.94
Unrestricted	<u>(12.91)</u>	<u>(19.44)</u>
<b>Total net assets (deficiency)</b>	<b><u>\$ (9.69)</u></b>	<b><u>\$(15.36)</u></b>

Following are the major changes on the Administration financial position:

- Total assets of the Administration increase by \$3.430 millions.
- Total liabilities decrease by \$2.240 millions. This reduction was caused by the decrease experienced on accrued compensation absent of \$2.290 millions.
- Total deficiency decrease by \$5.670 millions.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

Management Discussion and Analysis (Continued)

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**The Administration as a Whole (Continued)**

The following table summarizes the statement of activities for the years ended June 30, 2009 and 2008.

	Governmental Activities 2009	Governmental Activities 2008
<b>Revenues:</b>		
Legislative appropriations	\$ 14.00	\$ 13.96
Special appropriations	3.86	7.21
Intergovernmental-federal governmental	79.94	77.07
Miscellaneous	<u>.02</u>	<u>.01</u>
<b>Total revenues</b>	<u><b>97.82</b></u>	<u><b>98.25</b></u>
<b>Program Expenses:</b>		
Management and support	54.62	56.59
Vocational Rehabilitation Services	32.87	26.91
Older Blind Program	.50	.56
Independent Life Program	.26	.28
Sustained Employment Program	.35	.23
Employee Job Training Program	.29	.25
Improvements and Maintenance to facilities	<u>3.26</u>	<u>1.92</u>
	<u><b>92.15</b></u>	<u><b>86.74</b></u>
<b>Increase in net assets</b>	<u><b>\$ 5.67</b></u>	<u><b>\$ 11.51</b></u>

During the year ended June 30, 2009, the Administration received \$79.940 millions from Federal Assistant Programs, representing 82% of total funds received.

Also, the Administration expended \$87.49 millions for management and support and vocational rehabilitation services, representing 95% of total expenditures of total expenditures during the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

Management Discussion and Analysis (Continued)

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**Capital Assets**

At the end of June 30, 2009 the Administration had \$1.89 million invested in equipment, furniture and motor vehicles (net of depreciation). The following table summarizes the amounts invested in capital assets:

**Capital Assets at Year-End  
(Net of Accumulated Depreciation, in Millions)**

	<b>Governmental Activities</b>
	<b><u>2009</u></b>
Equipment	<b>\$ 1.84</b>
Furniture	<b>0.02</b>
Motor Vehicles	<b><u>0.03</u></b>
	<b><u>\$ 1.89</u></b>

**General Fund Budgetary Highlights**

The 2008-2009 General Fund Budget was \$14,004,000 or \$79,137 more than actual expending (\$13,924,863).

For the year ending June 30, 2010 the General Fund Budget assigned to the Administration amounted to \$11,292,000, which represents a reduction of \$2,712,000 or 19.4% compared with the fiscal year ended June 30, 2009.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

STATEMENT OF NET ASSETS (DEFICIENCY)  
June 30, 2009

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	Assets	Governmental Activities
<b>Current Assets</b>		
Cash and resources with fiscal agent		\$ 4,843,237
Receivables		<u>7,507,738</u>
Total current assets		12,350,975
Capital assets, net		<u>1,890,604</u>
Total assets		<u>\$ 14,241,579</u>
	<b>Liabilities</b>	
<b>Current liabilities</b>		
Accounts Payable		\$ 5,238,166
Central Government Advances		6,243,966
Accrued compensated absences, current portion		<u>7,710,261</u>
Total current liabilities		19,192,393
<b>Non-current liabilities</b>		
Accrued compensated absences, non-current		<u>4,737,884</u>
Total liabilities		<u>\$ 23,930,277</u>
<b>Net assets (deficiency)</b>		
Invested in Capital Assets, net		\$ 1,890,604
Restricted for improvements and maintenance to facilities		1,335,107
Unrestricted (deficit)		<u>(12,914,409)</u>
Total net assets (deficiency)		<u>\$ (9,688,698)</u>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION**

**STATEMENT OF ACTIVITIES  
 JUNE 30, 2009**

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	<u>Cost and expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenue and Changes in Net Assets – All Governmental Activities</u>
<b>Programs</b>			
<b>Governmental Activities:</b>			
Management and Support	\$ 54,619,289	\$ 53,930,584	\$ (688,705)
Vocational Rehabilitation Services	32,873,132	39,030,405	6,157,273
Older Blind Program	501,121	520,426	19,305
Independent Life Program	257,300	260,103	2,803
Sustained Employment Program	347,068	257,791	(89,277)
Employee Job Training Program	291,707	198,139	(93,568)
Improvements and Maintenance to Facilities	<u>3,258,145</u>	<u>3,622,921</u>	<u>364,776</u>
<b>Total governmental activities</b>	<b><u>\$ 92,147,762</u></b>	<b><u>\$ 97,820,369</u></b>	<b>5,672,607</b>
<b>Net assets (deficit), beginning</b>			<b><u>(15,361,305)</u></b>
<b>Net assets (deficit), ending</b>			<b><u>\$ (9,688,698)</u></b>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION

BALANCE SHEET – GOVERNMENTAL FUNDS  
 JUNE 30, 2009

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	General	Federal Programs	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash and resources with fiscal agent	\$ 89,817	\$ 3,219,861	\$ 1,533,559	\$ 4,843,237
Receivables	<u>-</u>	<u>5,882,738</u>	<u>1,625,000</u>	<u>7,507,738</u>
Total assets	<u>\$ 89,817</u>	<u>\$ 9,102,599</u>	<u>\$ 3,158,559</u>	<u>\$12,350,975</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 47,824	\$ 4,598,721	\$ 81,738	\$ 4,728,283
Central Government Advances	-	6,243,966	-	6,243,966
Contract retainage payable	836	275,246	98,769	374,851
Other Liabilities	<u>-</u>	<u>135,032</u>	<u>-</u>	<u>135,032</u>
Total liabilities	<u>48,660</u>	<u>11,252,965</u>	<u>180,507</u>	<u>11,482,132</u>
<b>Fund Balance:</b>				
Reserved for Encumbrances	20,879	2,113,721	239,045	2,373,645
Unreserved, reported in:				
General fund	20,278	-	-	20,278
Rehabilitation services fund	-	(4,264,087)	1,635,088	(2,628,999)
Improvements to facilities fund	<u>-</u>	<u>-</u>	<u>1,103,919</u>	<u>1,103,919</u>
Total fund balance (deficit)	<u>41,157</u>	<u>(2,150,366)</u>	<u>2,978,052</u>	<u>868,843</u>
Total liabilities and fund balance	<u>\$ 89,817</u>	<u>\$ 9,102,599</u>	<u>\$ 3,158,559</u>	<u>\$12,350,975</u>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS (DEFICIT)  
JUNE 30, 2009**

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<b>Total Fund Balances per Fund Financial Statements</b>	<b>\$</b>	<b>868,843</b>
 <b>Amounts reported to <i>governmental activities</i> in the statement of net assets are different because:</b>		
<b>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements</b>		<b>1,890,604</b>
<b>Liability of accrued compensated absences are not to be paid with current financial resources and therefore not reported in the fund financial statements</b>		<b><u>(12,448,145)</u></b>
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>9,688,698</u></b>

**See accompanying notes to basic financial statements**

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
JUNE 30, 2009**

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	General	Federal Programs	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Legislative appropriations	\$ 14,004,000	-	\$ -	\$ 14,004,000
Special appropriations	-	-	3,861,562	3,861,562
Federal grants	-	79,934,406	-	79,934,406
Miscellaneous	-	-	20,401	20,401
<b>Total Revenues</b>	<b>14,004,000</b>	<b>79,934,406</b>	<b>3,881,963</b>	<b>97,820,369</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Management and Support	9,601,005	44,400,894	2,515,170	56,517,069
Vocational Rehabilitation Services	4,410,255	28,449,848	13,029	32,873,132
Older Blind Program	-	506,424	-	506,424
Independent Life Program	-	259,021	-	259,021
Sustained Employment Program	-	349,123	-	349,123
Employee Job Training Program	-	291,707	-	291,707
Improvements and Maintenance to Facilities	-	3,087,269	300,158	3,387,427
<b>Total Expenditures</b>	<b>14,011,260</b>	<b>77,344,286</b>	<b>2,828,357</b>	<b>94,183,903</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(7,260)</b>	<b>2,590,120</b>	<b>1,053,606</b>	<b>3,636,466</b>
<b>Fund balance (deficiency), beginning</b>	<b>48,417</b>	<b>(4,740,486)</b>	<b>1,924,446</b>	<b>(2,767,623)</b>
<b>Fund balance (deficiency), ending</b>	<b>\$ 41,157</b>	<b>\$ (2,150,366)</b>	<b>\$ 2,978,052</b>	<b>\$ 868,843</b>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
JUNE 30, 2009**

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**Net change in fund balance-total governmental fund** **\$ 3,636,466**

**Amounts reported for governmental activities in the statement of activities 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 depreciation expense exceeded capital outlays for the period** **(252,729)**

**Accrued compensation 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** **2,288,870**

**Change in net assets of governmental activities** **\$ 5,672,607**

**See accompanying notes to basic financial statements**

Commonwealth of Puerto Rico  
 Vocational Rehabilitation Administration

Budgetary Comparison Schedule - General Fund  
 For the year ended June 30, 2009

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Management and Support	\$ 9,663,000	\$ 9,663,000	\$ 9,663,000	\$ -
Vocational Rehabilitation Services	4,341,000	4,341,000	4,341,000	-
Total	\$ 14,004,000	\$ 14,004,000	\$ 14,004,000	\$ -
<b>CHARGES TO APPROPRIATIONS</b>				
Management and Support	\$ 9,663,000	\$ 9,663,000	\$ 9,527,622	\$ 135,378
Vocational Rehabilitation Services	4,341,000	4,341,000	4,397,241	\$ (56,241)
Total	14,004,000	14,004,000	13,924,863	79,137
Excess of resources over charges to appropriations	\$ -	\$ -	\$ 79,137	\$ 79,137

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

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**Note 1 - Governmental Environment**

**Organization**

The Vocational Rehabilitation Administration (the Administration) is an agency of the Commonwealth of Puerto Rico organized to manage the funds for vocational rehabilitation as established in Public Law 93-112 of September 26, 1973, as amended, known as The Rehabilitation Law. The Administration was previously an operational component of the Department of the Family of the Commonwealth of Puerto Rico until June 10, 2000 when Law 97, transferred the same to the Department of Labor and Human Resources of the Commonwealth of Puerto Rico. Its mission is to enable persons with disability to enter in the workforce so they can lead an independent life.

Its 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 citizen with significant and severe disabilities.

**Funding**

The Administration is funded by combined Federal and Commonwealth of Puerto Rico funds, Legislative Appropriations are made annually to match expected Federal Awards. During the year ended June 30, 2009 the ratio of Federal to State Funds was approximately 80% / 20% respectively.

**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 Internal Audit 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, Mayagüez and Ponce.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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**Note 1 - Governmental Environment (Continued)**

**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 correct or modify 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. Sustained Employment Program**

This program offers skilled job trainers who accompany the worker for intensive on-the-job training, systematic training, job development, follow-up services, regular observation or supervision at training sites and provide other services needed to support an individual in employment.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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Note 1 - Governmental Environment (Continued)

f. Employment Job Training Program

This program is designed to support special projects for training State vocational rehabilitation unit personnel in program areas essential to the effective management of the unit's program of vocational rehabilitation services or in skill areas that enable staff personnel to improve their abilities to provide vocational rehabilitation services to individuals with disabilities. Projects are designed to: (1) address recruitment and retention of qualified rehabilitation professionals; (2) provide for successful planning; (3) provide for leadership development and capacity building; and (4) provide training on the Rehabilitation Act of 1973, as amended.

Note 2 - Summary of significant accounting policies

GASB 34

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 Standard 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 new financial reporting requirements for state and local governments. The Administration adopted the provisions of GASB No. 34 as well as others statements referred to below as of July 1, 2007. They require new 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 title Management Discussion and Analysis, which precedes the basic financial statements.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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**Note 2 – Summary of significant accounting policies (Continued)**

**Basic of presentation – fund accounting**

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, 2009:

a. **General Fund**

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

b. **Federal Programs**

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

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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**Note 2 – Summary of significant accounting policies (Continued)**

**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 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. Expenditures are recorded when the related fund liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

The Government-Wide financial statements include the statement of net assets and the statements of activities and display information of all the activities of the Administration as a whole. The Administration's activities are considered governmental type.

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.

**Net assets**

Net assets are the difference between assets and liabilities in governmental wide statements. Net assets are reported in three (3) categories:

- a. Invested in capital assets – these consist of capital assets, less accumulated depreciation.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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**Note 2 – Summary of significant accounting policies (Continued)**

- b. Restricted net assets – results when constraints placed on net assets 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) Net Assets - these consist of net assets which do not meet the definition of the two preceding categories. Unrestricted (deficit) net assets often have constraints on resources that are imposed by management, but can be removed or modified.**

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

**Budget**

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

- a. The Administration's management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).**
- b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the legislature.**
- c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project was prepared (the 1<sup>st</sup> of July of each year)**
- d. Once the budget project is approved, legally adopted and in operations, the Administration's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.**
- e. Formal budget integration is employed as a management control device during the fiscal year for the general fund.**

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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**Note 2 - Summary of significant accounting policies (Continued)**

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

Information concerning the budget adopted has been compiled by the Administration in a manner that could be used to presents 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 the compliance with budget adopted, which lapses at the end of fiscal year.

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 bases 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.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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Note 2 - Summary of significant accounting policies (Continued)

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

Excess of resources over charges to appropriations from the budgetary comparison schedule	\$ 79,137
Differences - budget to GAAP	
Current year encumbrances for supplies and services ordered but not received is reported in the year the order or contract is signed for budgetary purposes, but in the year they are received for financial reporting purposes and are recorded as current year expenditures for budgetary purposes	20,879
Prior year encumbrance settle during current year are expenditures of the General Fund in statement of Revenues, Expenditures and Changes un Fund Balance but not reported as such in the current year budget comparison schedule	<u>(107,276)</u>
Total Expenditures over revenues in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance	<u>\$ (7,260)</u>

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 constitute expenditure or liabilities since the commitments will be honored during subsequent year(s). Encumbrances constitute the equivalent of expenditures for budgetary purposes.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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Note 2 – Summary of significant accounting policies (Continued)

The amount reflected in the balance sheet reflects those contracts and open orders that had already been accounted by the Department of Treasury of the Commonwealth of Puerto Rico through the PRIFAS Accounting System as reservations of fund balance.

Capital assets

All buildings and infrastructure occupied by the Administration are recorded as capital assets in the accounting records of another Agency of the Commonwealth of Puerto Rico. Accordingly, all major modernizations and betterments done by the Administration are charged to expenditures in its Fund accounting and reported as expense in the government wide statements when incurred. All other assets used in the governmental operations are accounted for in the Governmental-wide financial statements of net assets, 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. 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.

Vacation and sick leave

The Administration's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to maximum of 90 days for sick leave. Earned vacation and sick leave are recorded as benefits are earned. The estimated values of leave earned by employees that may be used in subsequent years or paid upon termination or retirement are accounted for in the Governmental activities statement of net assets rather than in the governmental funds.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the general-purpose financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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**Note 3 - Custodial credit risk**

Custodial credit risk is the risk that in the event of bank failure, government's deposit may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2009 the government's bank balances was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 3,016,509
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**Note 4 - Resources with fiscal agent**

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

**Note 5 - Risk financing**

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

**Note 6 - Accounts Receivable**

The balance in accounts receivable mainly represents federal funds expended on or before June 30, 2009 that were reimbursed by the Federal Government during the fiscal year 2009-10.

COMMONWEALTH OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2009

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**Note 7 - Capital Assets**

Capital assets' activity of the Administration for fiscal year ended June 30, 3009 was as follows:

	Balance as of June 30, 2008	Additions	Retirements	Balance as of June 30, 2009
<b>Cost:</b>				
Equipment	\$7,594,460	\$ 129,283	\$ -	\$ 7,723,743
Furniture	140,065	-	-	140,065
Vehicles	<u>109,460</u>	<u>-</u>	<u>-</u>	<u>109,460</u>
	<u>7,843,985</u>	<u>129,283</u>	<u>-</u>	<u>7,973,268</u>
<b>Accumulated Depreciation:</b>				
Equipment	5,520,645	359,415	-	5,880,060
Furniture	114,715	9,508	-	124,223
Vehicles	<u>65,292</u>	<u>13,089</u>	<u>-</u>	<u>78,381</u>
	<u>5,700,652</u>	<u>382,012</u>	<u>-</u>	<u>6,082,664</u>
<b>Capital assets, net of accumulated depreciation</b>	<u>\$ 2,143,333</u>	<u>\$(252,729)</u>	<u>-</u>	<u>\$ 1,890,604</u>

Depreciation expense was charged to the Management and Support function.

**Note 8 - Accrued compensated absences**

	Balance as of June 30, 2008	Net Change	Balance as of June 30, 2009	Due within one year
Accrued vacations and sick leave	<u>\$ 14,737,015</u>	<u>\$(2,288,870)</u>	<u>\$ 12,448,145</u>	<u>\$ 7,710,261</u>

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009

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Note 9 - Contingencies

Litigation and claims

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

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

According to management of the Administration, there are several claims and lawsuits against the Administration arising out of, and incident 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.

Defined benefit plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act No 447 of May 15, 1951, as amended, is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of VRA hired before January 1, 2001 and under 55 years of age at the date of employment became participants of the Retirement System as a condition to their employment.

Commonwealth legislation requires employees to contribute 5.775% of the first \$550 of their monthly gross salary and 8.275% of the excess over \$550 of monthly gross salary. The Administration is required by the same statute to contribute 9.275% of the participant's gross salary.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009

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**Note 9 – Contingencies (Continued)**

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Participants who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive a Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined. Otherwise, they will receive 75 percent of the average compensation, as defined.

No benefits are payable if the participant receives a refund of his/her accumulated contributions upon termination.

**Defined contribution plan**

The Legislature of the Commonwealth of Puerto Rico enacted Act No. 305 on September 24, 1999, which amends Act No 447, to establish among other provisions, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2001 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and employee who are rehired on or after January 1, 2001 become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2001, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program. The last actuarial valuation was performed as of June 30, 2004.

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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**Note 9 - Contingencies (Continued)**

The following actuarial assumptions were used:

Interest rate	8.5% a year
Salary increases	5% a year
Actuarial frequency	Annual
Inflation	3% every third year

Employees must contribute an 8.275% of their monthly gross salary to the Program and may elect to increase their contribution up to 10%. Employee contributions are credited to his/her individual account established under the program. Participants may direct their contributions to three different investment options. Investment income is credited to the participant's account semiannually.

The Administration is required to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its assets level to reduce the unfunded status of the defined pension plan.

Upon retirement, the balance of the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit payable to the participant during his/her life, and upon death of the participant, 50% of such benefit to the participant's beneficiary. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, this lump-sum payment will be made to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability. The annual employer contribution for the year ended June 30, 2009 amounted to approximately \$3,227,000. Total payroll covered was approximately \$34,136,000.

Additional information on the Administration for the Retirement System of the Commonwealth of Puerto Rico is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained directly from the Administration of Retirement Systems of the Commonwealth of Puerto Rico.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009

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Note 9 - Contingencies (Continued)

Federal awards

The Administration participates in a number of federal assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Internal Control and Compliance in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2009 disclosed instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Administration may be required to reimburse the grantor.

Note 10 - 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, 2009 amounted to approximately \$3,996,100. Future operating lease commitments are scheduled as follows:

2010	\$2,842,400
2011	1,787,100
2012	259,300
2013	157,200
2014	130,000
2015-2019	650,000
2020-2022	<u>390,000</u>
	<u>\$6,216,000</u>

**COMMONWEALTH OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR YEAR ENDED JUNE 30, 2009**

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Federal Grantor/Pass-Through Grantor and Program	Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Education:</b>		
<b>Direct programs:</b>		
Rehabilitation Services – Vocational Rehabilitation Grants To States	84.126	\$ 75,281,011
Independent Living State Grants States Grants	84.169	259,021
Rehabilitation Services – Independent Living Services for Older Individuals who are Blind	84.177	506,424
Supported Employment Services for Individuals with Severe Disabilities – Supported Employment State Grants	84.187	349,123
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	<u>291,707</u>
Total U.S. Department of Education		<b>76,687,286</b>
<b>U.S. Department of Labor:</b>		
<b>Pass through program from:</b>		
Commonwealth of Puerto Rico Department of Labor: Workforce Investment Act- Adult Program	17.258	<u>657,000</u>
Total expenditures of federal awards		<b><u>\$ 77,344,286</u></b>

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR YEAR ENDED JUNE 30, 2009**

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**GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the Administration from all federal programs. The Administration's reporting entity is defined in Note A to the financial statements.

**BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization and was prepared following the modified accrual basis of accounting.

**MAJOR PROGRAM**

The purpose of Title I 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 individuals 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, 2009 amounted to \$77,344,286.



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

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

**Commonwealth of Puerto Rico  
Vocational Rehabilitation Administration  
San Juan, Puerto Rico**

We have audited the accompanying basic financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the Vocational Rehabilitation Administration of the Commonwealth of Puerto Rico (the Administration) as of and for the year ended June 30, 2009, which collectively comprised the Administration's basic financial statements and have issued our report thereon dated March 30, 2010. 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.

**Internal Control over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Administration's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Administration's financial statements that is more than inconsequential will not be prevented or detected by the Administration's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Administration's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 no instances of non compliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we reported to management of the Administration in a separate letter dated March 30, 2010.

This report is intended for the information and use of the Administration's management and federal awarding agencies, pass-through entities and other regulatory agencies, is not intended to be and should not be used by anyone other than the specified parties.

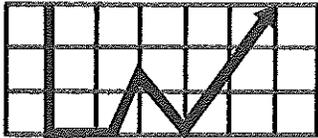
  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 30, 2010  
Stamp No. 2407094 of the  
Puerto Rico Society of Certified  
Public Accountants was affixed to  
the record copy of this report.



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Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Commonwealth of Puerto Rico  
Vocational Rehabilitation Administration  
San Juan, Puerto Rico

**Compliance**

We have audited the compliance of the Commonwealth of Puerto Rico Vocational Rehabilitation Administration of the Commonwealth of Puerto Rico (the Administration) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Administration major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Administration's management. Our responsibility is to express an opinion on the Administration compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 opinion. Our audit does not provide a legal determination of the Administration's compliance with those requirements.

As described in Findings No. 09-01 and 09-02 in the accompanying schedule of findings and questioned costs, the Administration did not comply with the compliance requirements regarding cash management and eligibility. Compliance with such requirements is necessary, in our opinion, for the Administration to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Administration complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Administration is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Administration's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Administration's 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses as defined below.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-01 and 09-02 to be significant deficiencies.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Items 09-01 and 09-02, to be material weaknesses.

The Administration's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Administration's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Administration's management and federal awarding agencies, pass-through entities, and other regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 30, 2010  
Stamp No. 2407095 of the  
Puerto Rico Society of Certified  
Public Accountants was affixed to  
the record copy of this report.



*López-Vega, CPA, PSC*

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**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009**

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**Section I - Summary of Auditors' Report**

- 1. The auditors' report expresses an unqualified opinion on the financial statements of the Administration.**
- 2. No control deficiencies were disclosed during the audit of the financial statements.**
- 3. No instance of noncompliance material to the financial statements of the Administration was disclosed during the audit.**
- 4. Two (2) significant deficiencies in internal control over major federal award programs disclosed during the audit were reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. Two (2) of the conditions are reported as a material weakness.**
- 5. The auditors' report on compliance for the major federal award programs for the Administration expresses a qualified opinion on a major federal program.**
- 6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.**
- 7. The program tested as major programs included:**

<b><u>CFDA Numbers(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
<b>84.126</b>	<b>Rehabilitation Services- Vocational Rehabilitation Grant to States</b>

- 8. The threshold for distinguishing Types A and B programs was \$2,357,573.**
- 9. The Administration was not determined to be a low risk auditee.**

**COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2009**

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**Section II - Financial Statements Findings**

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with Government Auditing Standards

COMMONWEALTH OF PUERTO RICO  
 VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 YEAR ENDED JUNE 30, 2009

Section III – Federal Awards Findings

Finding Reference            09-01

Requirement                 Cash Management

Statement of Condition        We noted in six different petitions of funds made by the Special Payer Officer were not disbursed in a short period of time.

Petition Number	Petition Date	Receipt Date	Disbursement Date	Days Elapsed
09005002	07/17/08	07/31/08	08/25/08	24
09005071	09/19/08	10/24/08	10/14/08	20
09005098	11/17/08	12/12/08	12/16/08	4
09005149	01/27/09	03/10/09	03/27/09	17
09005185	03/18/09	04/22/09	04/27/09	5
98005211	04/23/09	05/19/09	05/27/09	8

As of 06/30/09 accounts managed by the Special Payer Officer had balances amounting to \$3,219,861.

Criteria                         As per 34 CFR 80.21 (b) a grantee or subgrantee must implement methods and procedures that minimize the time elapsing between the transfer of funds and disbursements of them in accordance with Treasury regulations at 31 CFR part 205.

Also the 31 CFR 205.11(a)(6) requires that State and Federal Program Agency must minimize the time elapsing between the transfer of funds from United State Treasury and the State's payout of Funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds. In addition, a State and Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2009

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Section III – Federal Awards Findings (Continued)

Finding Reference	09-01 (Continued)
Cause of Condition	The Puerto Rico Department of Treasury requires that the disbursements made by the Special Payer Officer be requested first to PR Treasury Department and then to United States Treasury Department. Also, the Special Payer Officer made the requisitions based on estimated future payments and not by actual payments.
Effect of Condition	The Administration may incur in an interest liability to the Federal Government from the day the Federal Funds are credited to a state account to the day the State pays out the funds for programs purposes. Excess funds must be returned immediately.
Recommendation	Procedures should be established as to ascertain that the time elapsed between the receipt and use of funds is minimal. Such procedures should include that the bank reconciliation be prepared on a timely basis. In addition the Special Payer Officer procedures, to determine the needs for funds, should be revised to ascertain that the amount of cash on hand be considered before the request be issued.
Questioned costs	None
Management Response	The Administration's management concurs with the finding, however is in compliance with State Regulation No. 9, regarding disbursement of funds by the Special Disbursement Officer, issued by the Puerto Rico Treasury Department. Regulation states that the SDO will submit to Treasury a petition for funds to cover needs identified for the month at the beginning of each month.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2009

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Section III – Federal Awards Findings (Continued)

Finding Reference	09-02
Requirement	Eligibility
Statement of Condition	In our eligibility determination test we found 19 individual files did not have the waiver letter. We examined 60 files and 22 of those files must have the waiver letter for a 30 days extension for the eligibility determination.
Criteria	The Federal Register Part VI 34 CFR Part 361 State Vocational Rehabilitation Services Program; Final Rule, Section 41 specified that the State unit must establish and implement standards for the prompt and equitable handling of referrals of individuals for vocational rehabilitation services. The standards must include timelines for making good faith efforts to inform these individual of application requirements and to gather information necessary to initiate an assessment for determining eligibility and priority for services. Once an individual has submitted an application for vocational rehabilitation services, an eligibility determination must be made within 60 days unless the designated state unit and the individual agree to a specific extension of time. As per the "Administration" procedures the waiver letter constituted an agreement between parties to a 30 days extension of time to determine the eligibility.
Cause of the Condition	The Administration did not agree with each individual an extension of time to determine the eligibility as required.
Effect of Condition	The Administration did not comply with federal and local requirements of a 60 days eligibility determination.
Recommendation	The Administration should enforce to employees with this responsibilities to comply with the requirement or to agree with individuals for an extension of time signing the waiver letter.
Question costs	None
Management Response	The Administration's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
VOCATIONAL REHABILITATION ADMINISTRATION

SUMMARY OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2009

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**NUMBER: 08-01**

**CONDITION FOUND:**

We noted in 7 petitions of funds made by the Special Payer of the 25 selected that the funds were not disbursed in a short period of time.

Petition No.	Date	Amount	Amount Expended	Open balance at 6/30/2008
08005026	05/28	\$ 400,000	\$ -	\$ 400,000
08005025	05/28	600,000	-	600,000
08008181	04/18	328,000	215,835	112,165
08008180	04/18	366,000	110,684	255,316
08008157	02/21	800,000	644,322	155,678
08008130	12/07	990,000	-	900,000
08008103	10/23	2,000,000	1,833,047	166,953

**KNOWN QUESTIONED COSTS**

NONE

**STATUS**

No corrective action was taken. The auditors reissued the finding for current year. Finding reference 09-01.

