

**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, 2010**

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

YEAR ENDED JUNE 30, 2010

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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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, 2010 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 the 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, 2010, 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 December 15, 2010 and for the year ended June 30, 2010 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 on pages 3 through 9 and the budgetary comparison schedule on page 16 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 as a whole. 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject 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 financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion is 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
December 23, 2010
Stamp No. 2407118 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2010

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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, 2010. Please read in conjunction with the financial statements.

Financial Highlights

- Total assets of the **Administration** amounted to approximately \$8.320 millions, which represents a decrease of approximately \$5.923 million compared with the balance for 2009.
- Total liabilities of the **Administration** amounted to \$16.38 millions. As of June 30, 2010, the balance of compensated absences payable represents 67% of the total liabilities.
- Total liabilities of the **Administration**, on a government-wide basis, exceed its assets by approximately \$8.065 millions as of June 30, 2010.
- The **Administration** has been assigned \$12.597 million from the American Recovery and Reinvestment Act (ARRA). These funds will be available for obligation until September 30, 2011. They must be expended by December 31, 2011. As of June 30, 2010, only \$1.738 millions of these funds has been expended.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

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Reporting the Administration as a Whole (Continued)

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.

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 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**. 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)
JUNE 30, 2010**

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The Administration as a Whole

The **Administration's** governmental net assets (deficit) were (\$8.06) millions at June 30, 2010. 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, 2010.

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Current and other assets	6.73	12.35
Capital assets	<u>1.59</u>	<u>1.89</u>
Total assets	<u>8.32</u>	<u>14.24</u>
Accounts payable and other current liabilities	4.92	5.24
Central Government Advances	0.45	6.24
Accrued compensated absences	<u>11.01</u>	<u>12.45</u>
Total liabilities	<u>16.38</u>	<u>23.93</u>
Invested in capital assets	1.59	1.89
Restricted	0.60	1.33
Unrestricted	<u>(10.25)</u>	<u>(12.91)</u>
Total net assets (deficit)	<u>\$ (8.06)</u>	<u>\$ (9.69)</u>

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

- Total assets of the **Administration** decreased by \$5.923 millions.
- Total liabilities decreased by \$7.546 millions. This reduction was caused by the decrease experienced on central government advances of \$5.793 millions and accrued compensated absences of \$1.440 millions.
- Total deficiency decreased by \$1.630 millions.

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010**

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The Administration as a Whole (Continued)

The following table summarizes the statement of activities for the years ended June 30, 2010 and 2009.

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Revenues:		
Legislative appropriations	\$ 11.29	\$ 14.00
Special appropriations	9.03	3.86
Intergovernmental-federal governmental	75.75	79.94
Miscellaneous	<u>.02</u>	<u>.02</u>
Total revenues	<u>96.09</u>	<u>97.82</u>
Program Expenses:		
Management and support	52.08	54.62
Vocational Rehabilitation Services	38.17	32.87
Older Blind Program	.59	.50
Independent Life Program	.34	.26
Sustained Employment Program	.65	.35
Employee Job Training Program	.22	.29
Improvements and Maintenance to facilities	<u>2.42</u>	<u>3.26</u>
	<u>94.47</u>	<u>92.15</u>
Increase in net assets	<u>\$ 1.62</u>	<u>\$ 5.67</u>

During the year ended June 30, 2010, the **Administration** received \$75.75 millions from Federal Assistant Programs, representing 78.8% of total funds received.

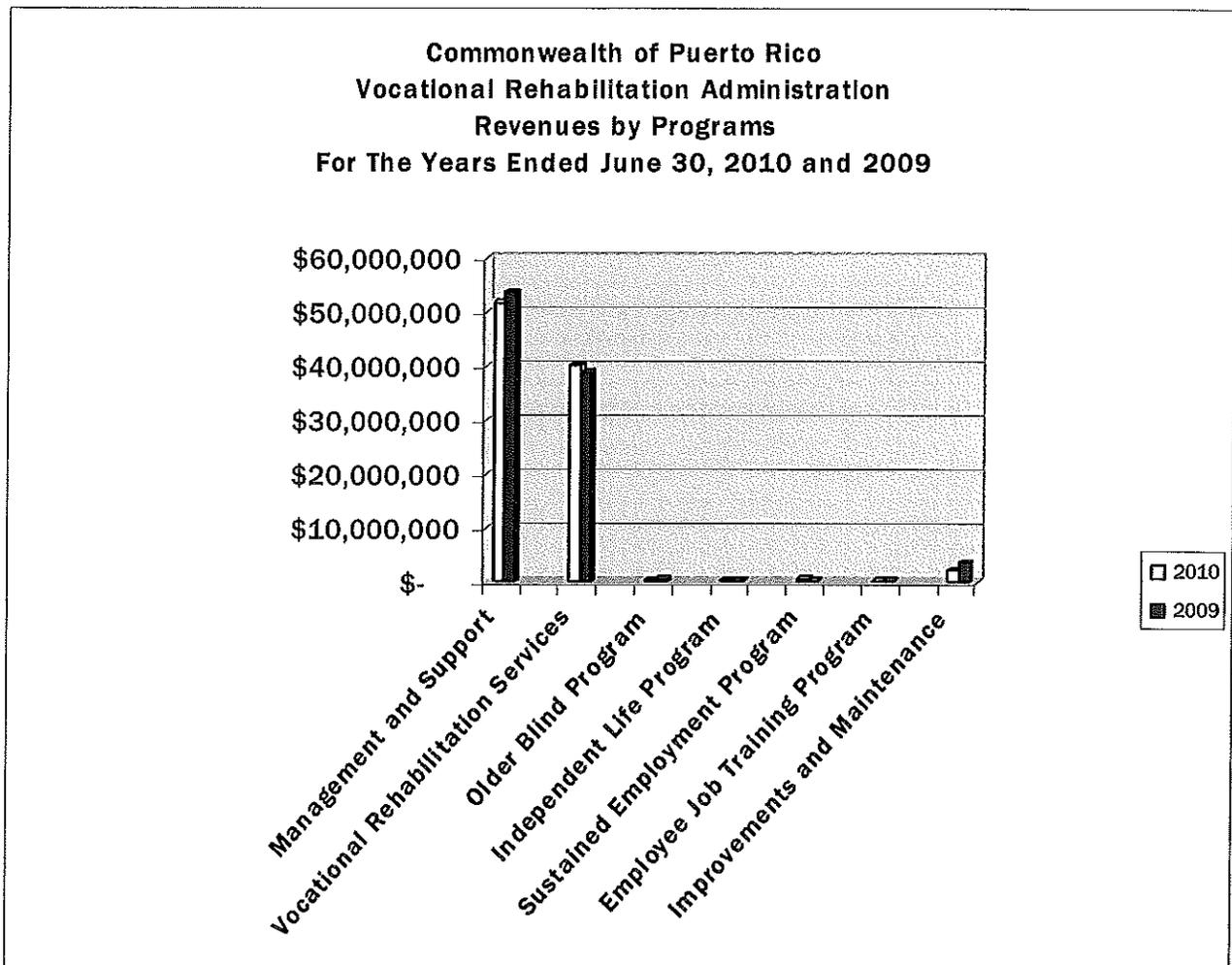
Also, the **Administration** expended \$90.25 millions for management and support and vocational rehabilitation services, representing 95.5% of total expenditures during the year ended June 30, 2010.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

The Administration as a Whole (Continued)

The following chart presents revenues comparison by programs of the **Administration** activities for the year ended June 30, 2010 and 2009:

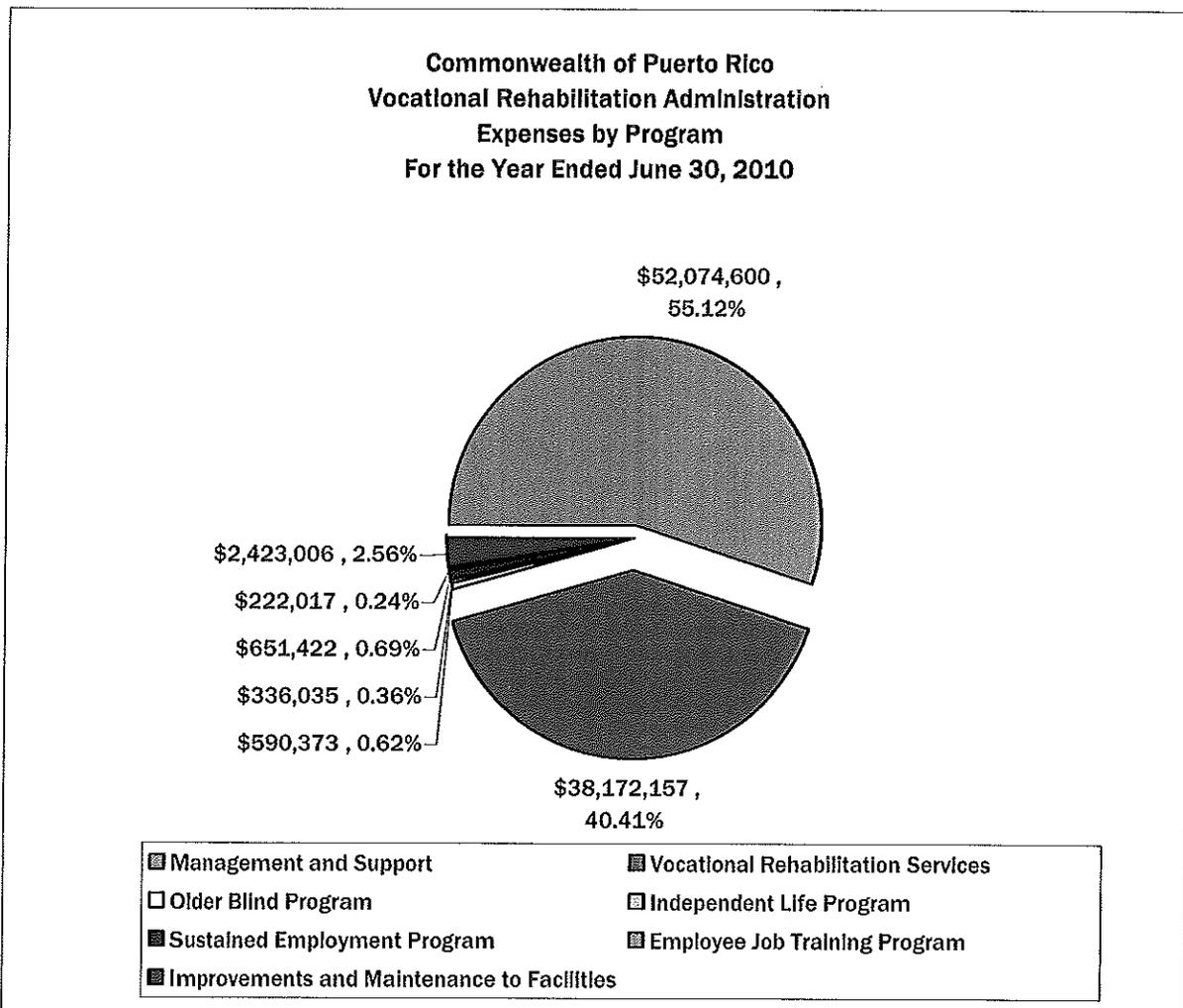


COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2010

The Administration as a Whole (Continued)

The following chart presents expenses by program of the **Administration** for the year ended June 30, 2010:



COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
 JUNE 30, 2010

Capital Assets

At the end of June 30, 2010, the **Administration** had \$1.59 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)**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2010</u>	<u>2009</u>
Equipment	\$1.56	\$1.84
Furniture	0.01	0.02
Motor Vehicles	<u>0.02</u>	<u>0.03</u>
	<u>\$1.59</u>	<u>\$1.89</u>

General Fund Budgetary Highlights

The 2009-2010 General Fund Budget was \$11,292,000 or \$53,572 less than actual expending (\$11,345,572). The Central Government also approves a fiscal stabilization fund of \$6,363,000.

For the year ending June 30, 2011, the General Fund Budget assigned to the **Administration** amounted to \$17,093,000, which represents an increase of \$5,801,000 or 51% compared with the fiscal year ended June 30, 2010. Also, the **Administration** budget for the fiscal stabilization fund decreased by \$4,785,000 resulting in a net increase of funds assigned by the Central Government amounting to \$1,016,000 as follows:

	<u>2009-2010</u>	<u>2010-2011</u>	<u>Increase (decrease)</u>
General Fund	\$ 11,292,000	\$ 17,093,000	\$ 5,801,000
Fiscal stabilization fund	<u>6,363,000</u>	<u>1,578,000</u>	<u>(4,785,000)</u>
	<u>\$ 17,655,000</u>	<u>\$ 18,671,000</u>	<u>\$ 1,016,000</u>

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

STATEMENT OF NET ASSETS
June 30, 2010

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	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash and resources with fiscal agent	\$ 1,225,133
Receivables	<u>5,504,478</u>
Total current assets	6,729,611
Capital assets, net	<u>1,589,367</u>
Total assets	<u>\$ 8,318,978</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 4,925,021
Central Government Advances	450,721
Accrued compensated absences, current portion	<u>6,296,420</u>
Total current liabilities	11,672,162
Non-current liabilities	
Accrued compensated absences, non-current	<u>4,712,143</u>
Total liabilities	<u>\$ 16,384,305</u>
Net assets (deficit)	
Invested in Capital Assets, net	\$ 1,589,367
Restricted for improvements and maintenance to facilities	599,371
Unrestricted (deficit)	<u>(10,254,065)</u>
Total net assets (deficit)	<u>\$ (8,065,327)</u>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**STATEMENT OF ACTIVITIES
JUNE 30, 2010**

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Programs	Cost and expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets - All Governmental Activities
Governmental Activities:			
Management and Support	\$ 52,074,600	\$ 51,873,778	\$ (200,822)
Vocational Rehabilitation Services	38,172,157	40,257,198	2,085,041
Older Blind Program	590,373	485,525	(104,848)
Independent Life Program	336,035	383,477	47,442
Sustained Employment Program	651,422	671,851	20,429
Employee Job Training Program	222,017	181,361	(40,656)
Improvements and Maintenance to Facilities	<u>2,423,006</u>	<u>2,239,791</u>	<u>(183,215)</u>
 Total governmental activities	 <u>\$ 94,469,610</u>	 <u>\$ 96,092,981</u>	 1,623,371
 Net assets (deficit), beginning			 <u>(9,688,698)</u>
 Net assets (deficit), ending			 <u>\$ (8,065,327)</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION

BALANCE SHEET – GOVERNMENTAL FUNDS
 JUNE 30, 2010

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	<u>General Fund</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and resources with fiscal agent	\$ 124,658	\$ 313,158	\$ 787,317	\$ 1,225,133
Receivables	-	4,900,678	603,800	5,504,478
Total assets	<u>\$ 124,658</u>	<u>\$ 5,213,836</u>	<u>\$ 1,391,117</u>	<u>\$ 6,729,611</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 86,298	\$ 4,537,593	\$ -	\$ 4,623,891
Central Government Advances	-	450,721	-	450,721
Contract retainage payable	836	225,522	74,772	301,130
Total liabilities	<u>87,134</u>	<u>5,213,836</u>	<u>74,772</u>	<u>5,375,742</u>
Fund Balance:				
Reserved for:				
Encumbrances	70,818	2,084,094	5,854	2,160,766
Rehabilitation services fund	-	(2,084,094)	711,120	(1,372,974)
Improvements to facilities fund	-	-	599,371	599,371
Unreserved (Deficit), reported in:				
General fund	(33,294)	-	-	(33,294)
Total fund balance	<u>37,524</u>	<u>-</u>	<u>1,316,345</u>	<u>1,353,869</u>
Total liabilities and fund balance	<u>\$ 124,658</u>	<u>\$ 5,213,836</u>	<u>\$ 1,391,117</u>	<u>\$ 6,729,611</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, 2010

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Total Fund Balances per Fund Financial Statements	\$ 1,353,869
Amounts reported to <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements	1,589,367
Liability of accrued compensated absences are not to be paid with current financial resources and therefore not reported in the fund financial statements	<u>(11,008,563)</u>
Net assets of governmental activities	<u>\$ (8,065,327)</u>

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, 2010**

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	<u>General Fund</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$ 11,292,000	\$ -	\$ -	\$ 11,292,000
Special appropriations	-	-	9,032,228	9,032,228
Federal grants	-	75,754,700	-	75,754,700
Miscellaneous	-	-	14,053	14,053
Total Revenues	<u>11,292,000</u>	<u>75,754,700</u>	<u>9,046,281</u>	<u>96,092,981</u>
EXPENDITURES				
Management and Support	3,727,240	39,209,097	10,256,123	53,192,460
Vocational Rehabilitation Services	7,568,393	30,600,764	3,000	38,172,157
Older Blind Program	-	601,471	-	601,471
Independent Life Program	-	341,262	-	341,262
Sustained Employment Program	-	655,582	-	655,582
Employee Job Training Program	-	222,017	-	222,017
Improvements and Maintenance to facilities	-	1,974,141	448,865	2,423,006
Total Expenditures	<u>11,295,633</u>	<u>73,604,334</u>	<u>10,707,988</u>	<u>95,607,955</u>
Excess (deficiency) of revenues over expenditures	(3,633)	2,150,366	(1,661,707)	485,026
Fund balance (deficiency), beginning	<u>41,157</u>	<u>(2,150,366)</u>	<u>2,978,052</u>	<u>868,843</u>
Fund balance, ending	<u>\$ 37,524</u>	<u>\$ -</u>	<u>\$ 1,316,345</u>	<u>\$ 1,353,869</u>

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, 2010**

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Net change in fund balance-total governmental fund \$ 485,026

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 (301,237)

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 1,439,582

Change in net assets of governmental activities \$ 1,623,371

**COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Non-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budget Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Management and Support Vocational Rehabilitation Services	\$ 3,103,000	\$ 3,517,532	\$ 3,517,532	\$ -
	<u>8,189,000</u>	<u>7,774,468</u>	<u>7,774,468</u>	<u>-</u>
Total	<u>11,292,000</u>	<u>11,292,000</u>	<u>11,292,000</u>	<u>-</u>
CHARGES TO APPROPRIATIONS				
Management and Support Vocational Rehabilitation Services	3,103,000	3,517,532	3,726,603	(209,071)
	<u>8,189,000</u>	<u>7,774,468</u>	<u>7,618,969</u>	<u>155,499</u>
Total	<u>11,292,000</u>	<u>11,292,000</u>	<u>11,345,572</u>	<u>(53,572)</u>
Excess (deficiency) of resources over charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (53,572)</u>	<u>\$ (53,572)</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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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 disabilities 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 citizens 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, 2010 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, 2010

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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, 2010

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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 titled Management Discussion and Analysis, which precedes the basic financial statements.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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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, 2010:

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, 2010

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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, 2010

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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 1st of July of each year)
- d. Once the budget project is approved, legally adopted and in operations, the **Administration's** management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.
- e. Formal budget integration is employed as a management control device during the fiscal year for the general fund.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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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 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 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, 2010

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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 (deficiency) of resources over charges to appropriations from the budgetary comparison schedule	\$ (53,572)
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	70,818
Prior year encumbrance settle during current year are expenditures of the General Fund in statement of Revenues, Expenditures and Changes in Fund Balance but not reported as such in the current year budget comparison schedule	<u>(20,879)</u>
Total Expenditures over revenues in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance	<u>\$ (3,633)</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, 2010

25

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, 2010

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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, 2010 the government's bank balances was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$2,145,192</u>
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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, 2010 that were reimbursed by the Federal Government during fiscal year ending June 30, 2011.

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

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Note 7 – Capital Assets

Capital assets' activity of the Administration for fiscal year ended June 30, 2010 was as follows:

	<u>Balance as of June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2010</u>
Cost:				
Equipment	\$7,723,743	\$ 61,500	\$ -	\$ 7,785,243
Furniture	140,065	-	-	140,065
Vehicles	<u>109,460</u>	<u>-</u>	<u>-</u>	<u>109,460</u>
	<u>7,973,268</u>	<u>61,500</u>	<u>-</u>	<u>8,034,768</u>
Accumulated Depreciation:				
Equipment	5,880,060	346,570	-	6,226,630
Furniture	124,223	9,507	-	133,730
Vehicles	<u>78,381</u>	<u>6,660</u>	<u>-</u>	<u>85,041</u>
	<u>6,082,664</u>	<u>362,737</u>	<u>-</u>	<u>6,445,401</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,890,604</u>	<u>\$(301,237)</u>	<u>\$ -</u>	<u>\$ 1,589,367</u>

Depreciation expense was charged to the Management and Support function.

Note 8 – Accrued compensated absences

	<u>Balance as of June 30, 2009</u>	<u>Net Change</u>	<u>Balance as of June 30, 2010</u>	<u>Due within one year</u>
Accrued vacations and sick leave	<u>\$ 12,448,145</u>	<u>\$ (1,439,582)</u>	<u>\$ 11,008,563</u>	<u>\$ 6,296,420</u>

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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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, 2010**

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Note 9 – Contingencies (Continued)

Defined contribution plan (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 de \$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 participants receives a refund of his/her accumulated contributions upon termination.

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, 2010

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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 investments 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, 2010 amounted to approximately \$2,963,226. Total payroll covered was approximately \$34,307,705.

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, 2010, 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, 2010

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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, 2010 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** opinion upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2010 amounted to approximately \$4,316,529. Future operating lease commitments are scheduled as follows:

Year ending <u>June 30,</u>	<u>Amount</u>
2011	\$ 1,787,100
2012	259,300
2013	157,200
2014	130,000
2015	130,000
2016-2020	650,000
2021-2022	<u>260,000</u>
	<u>\$ 3,373,600</u>

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2010**

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<u>Federal Grantor/Pass-Through Grantor and Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:		
Direct programs:		
Rehabilitation Services – Vocational Rehabilitation Grants To States	84.126	\$ 69,300,674
Vocational Rehabilitation Grants To States – ARRA (Cluster)	84.390A	1,733,328
Independent Living State Grants States Grants	84.169	336,562
States Grants – ARRA	84.398A	4,700
Rehabilitation Services – Independent Living Services for Older Individuals who are Blind	84.177	601,471
Supported Employment Services for Individuals with Severe Disabilities – Supported Employment State Grants	84.187	655,582
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	<u>222,017</u>
Total U.S. Department of Education		72,854,334
U.S. Department of Labor:		
Pass-through program from:		
Commonwealth of Puerto Rico Department of Labor: Workforce Investment Act- Adult Program	17.258	<u>750,000</u>
Total expenditures of federal awards		<u>\$ 73,604,334</u>

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2010**

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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, 2010 amounted to \$73,604,334.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' REPORT ON 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, 2010, which collectively comprised the **Administration's** basic financial statements and have issued our report thereon dated December 23, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies in internal control such that there is reasonable possibility that a material misstatement of the **Administration's** financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, 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

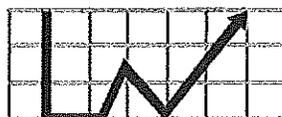
As part of obtaining reasonable assurance about whether the **Administration's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect 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 December 23, 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
December 23, 2010
Stamp No. 2575409 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
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 **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 could have direct and material effect on each of the **Administration's** major federal programs for the year ended June 30, 2010. 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. 10-01 and 10-02 in the accompanying schedule of findings and questioned costs, the **Administration** did not comply with the compliance requirements regarding cash management and eligibility that are applicable to its major program. Compliance with such requirements is necessary, in our opinion, for the **Administration** to comply with the requirements applicable to that program.

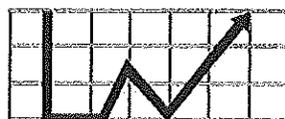
In our opinion, except for the noncompliance described in the preceding paragraph, the **Administration** complied, in all material respects, with the compliance requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2010.

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 to determine the 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 was not designed to identify all deficiencies in the entity's internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance, that all deficiencies, significant deficiencies, or material weaknesses have been identified. 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material non compliance 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 items 10-01 and 10-02 to be material weaknesses.



López-Vega, CPA, PSC

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A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of finding and questioned costs as items 10-01 and 10-02 to be significant deficiencies.

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 no express opinion on the responses.

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
December 23, 2010
Stamp No. 2575410 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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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. Both conditions are reported as 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 programs tested as major programs included:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
84.126	Rehabilitation Services- Vocational Rehabilitation Grant to States
84.390A	Rehabilitation Services- Vocational Rehabilitation Grant to States ARRA

8. The threshold for distinguishing Types A and B programs was \$2,208,130.
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, 2010**

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Section II – Financial Statements Findings

NONE

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 YEAR ENDED JUNE 30, 2010

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 10-01

Requirement Cash Management

Statement of Condition We noted seven 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
10005017	08/03/09	08/24/09	10/21/09	58
10005046	10/05/09	10/20/09	04/20/10	182
10005076	12/01/09	12/15/09	01/14/10	30
10005105	02/01/10	02/17/10	03/16/10	31
10005138	04/08/10	05/05/10	05/17/10	12
10005152	05/05/10	05/13/10	06/29/10	47
10005159	06/01/10	06/14/10	08/10/10	68

As of June 30, 2010 accounts managed by the Special Payer Officer had balances amounting to \$313,158.

The **Administration** Management has implemented certain controls in order to comply with Federal Regulations.

As part of our audit, we examined three additional petitions subsequent to the year ended June 30, 2010 and the amounts requested were expended the same day or after one day of the petition. The additional procedures were performed to verify that the new controls were implemented. Following are the results obtained.

Petition number	Petition day	Receipt date	Disbursement Date	Days Elapsed
11005001	07/01/2010	07/15/2010	07/15/2010	Same day
11005006	08/02/2010	08/18/2010	08/18/2010	Same day
11005033	09/13/2010	09/23/2010	09/24/2010	One day

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

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Section III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference	10-01 (Continued)
Criteria	<p>As per 34 CR 80.21 (b) a grantee or sub-grantee 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 31CFR part 205.</p> <p>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.</p>
Cause of Condition	<p>The Puerto Rico Department of Treasury requires that the disbursements made by the Special Payer Officer be requested first to P.R. 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.</p>
Effect of Condition	<p>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.</p>
Recommendation	<p>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.</p>
Questioned costs	None

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

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Section III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference	10-01 (Continued)
Management Response	The Administration's management concurs with the finding. As of the date of the Auditor's report the management has established an operational control in order to comply with Federal Regulations. The new control requires that the Special Disbursement Officer only process and disburse payments for consumer reimbursements of maintenance and transportation based on actual expenditures. A more detail explanation of the controls established to comply with cash management requirements will be presented in the corrective action plan.
Finding Reference	10-02
Requirement	Eligibility
Statement of Condition	In our eligibility determination test we found 19 individual files did not have the required waiver letter. Also, we examined 60 files and 25 of those files must have the waiver letter for a 30 days extension for the eligibility determination. However, subsequent to our examination, the management has made efforts to comply with the requirements and during the month of October 2010 the determination rate increased from 75.2% to 99.16% of the total cases were determined eligible on 60 days or less.
Criteria	The Federal Register Part VI 34CFR 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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2010

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Section III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference	10-02 (Continued)
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.
Questioned 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, 2010**

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 June 30, 2009 accounts managed by the Special Payer Officer had balances amounting to \$3,219,861.

Criteria As per 34 CR 80.21 (b) a grantee or sub-grantee 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 31CFR 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.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SUMMARY OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2010

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Finding Reference	09-01 (Continued)
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. Auditor's recommendation would be considered as part of corrective action plan development and implementation.
Status	Condition still prevails.
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. Also, we examined 60 files and 22 of those files must have the waiver letter for a 30 days extension for the eligibility determination.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SUMMARY OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2010

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Finding Reference	09-02 (Continued)
Criteria	<p>The Federal Register Part VI 34CFR 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.</p>
Cause of the Condition	<p>The Administration did not agree with each individual an extension of time to determine the eligibility as required.</p>
Effect of Condition	<p>The Administration did not comply with federal and local requirements of a 60 days eligibility determination.</p>
Recommendation	<p>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.</p>
Questioned costs	None
Management Response	<p>The Administration's management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>
Status	Condition still prevails

