

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

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

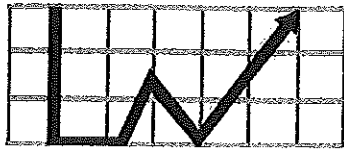
YEAR ENDED JUNE 30, 2011

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

YEAR ENDED JUNE 30, 2011

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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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, 2011 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Administration** as of June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule on pages 3 through 9 and 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

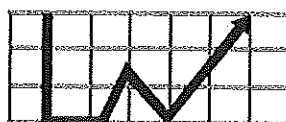
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Administration's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office 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 Schedule of Expenditures of Federal Awards is the responsibility of management and was 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 additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lopez Vega CPA, PSC
LOPEZ VEGA, CPA/PSC

San Juan, Puerto Rico

December 29, 2011.

Stamp No. 2575512 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'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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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, 2011. Please read in conjunction with the financial statements.

Financial Highlights

- Total assets of the **Administration** amounted to approximately \$9.24 millions, which represents an increase of approximately \$.92 million compared with the balance for 2010. This increase was due mainly to the acquisition of various computer equipment.
- Total liabilities of the **Administration** amounted to \$24.43 millions. As of June 30, 2011, the balance of compensated absences payable represents 42% and termination benefits 36% of total liabilities.
- Total liabilities of the **Administration**, on a government-wide basis, exceed its assets by approximately \$15.19 millions as of June 30, 2011.
- The **Administration** has been assigned \$12.597 millions from the American Recovery and Reinvestment Act (ARRA). These funds were available for obligation until September 30, 2011. They must be expended by December 31, 2011. As of June 30, 2011, \$10.563 millions of these funds have 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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

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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.

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** operations. 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'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011**

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The Administration as a Whole

The **Administration's** governmental net assets (deficit) amounted to (\$15.19) millions at June 30, 2011. This deficit is mainly due to vacation and sick leave and termination benefits accruals that were recorded to convert the **Administration's** basis of accounting to accrual. The following table summarizes the statements of net assets as of June 30, 2011 and 2010.

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Current and other assets	6.28	6.73
Capital assets	<u>2.96</u>	<u>1.59</u>
Total assets	<u>9.24</u>	<u>8.32</u>
Accounts payable and other current liabilities	5.32	4.92
Central Government Advances	-	.45
Accrued compensated absences	10.22	11.01
Accrued termination benefits	<u>8.89</u>	<u>-</u>
Total liabilities	<u>24.43</u>	<u>16.38</u>
Invested in capital assets	2.96	1.59
Restricted	(0.02)	.60
Unrestricted	<u>(18.13)</u>	<u>(10.25)</u>
Total net assets (deficit)	<u>\$ (15.19)</u>	<u>\$ (8.06)</u>

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

- Total assets of the **Administration** increased by \$0.92 million.
- Total liabilities increased by \$8.05 millions. This increase was mainly caused by the recoding of termination benefits amounting to \$8.89 millions and reduction in accrued compensated absences of \$0.79 million.
- Total deficiency increased by \$7.13 millions. Due to the previously mentioned situation of termination benefits accrual of \$8.89 millions based on requirements stated on Acct. No. 70 of the Puerto Rico Government.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

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The Administration as a Whole (Continued)

The following table summarizes the statement of activities for the years ended June 30, 2011 and 2010.

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
Revenues:		
Legislative appropriations	\$ 17.09	\$ 11.29
Special appropriations	5.37	9.03
Intergovernmental-federal governmental	68.80	75.75
Miscellaneous	<u>.03</u>	<u>.02</u>
Total revenues	<u>91.29</u>	<u>96.09</u>
Program Expenses:		
Management and support	61.62	52.08
Vocational Rehabilitation Services	35.12	38.17
Older Blind Program	.54	.59
Independent Life Program	.40	.34
Sustained Employment Program	.21	.65
Employee Job Training Program	.20	.22
Improvements and Maintenance to facilities	<u>.32</u>	<u>2.42</u>
	<u>98.41</u>	<u>94.47</u>
Increase (Decrease) in net assets	<u>\$ (7.12)</u>	<u>\$ 1.62</u>

During the year ended June 30, 2011, the **Administration** received \$68.8 millions from Federal Assistant Programs, representing 75.4% of total funds received.

Also, the **Administration** expended \$96.74 millions for management and support and vocational rehabilitation services, representing 98.3% of total expenditures during the year ended June 30, 2011.

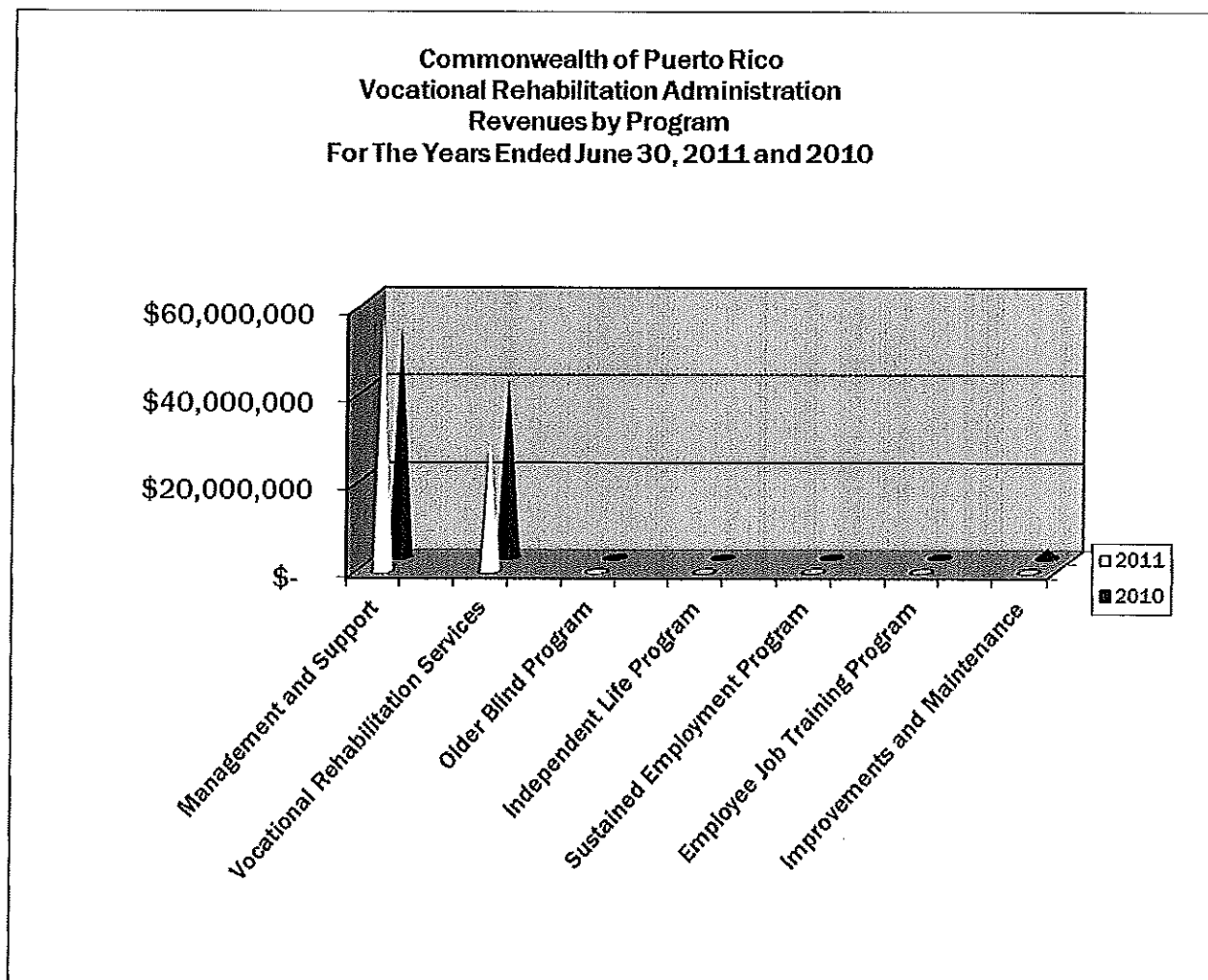
COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

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The Administration as a Whole (Continued)

The following chart presents revenues comparison by program of the **Administration** activities for the years ended June 30, 2011 and 2010:



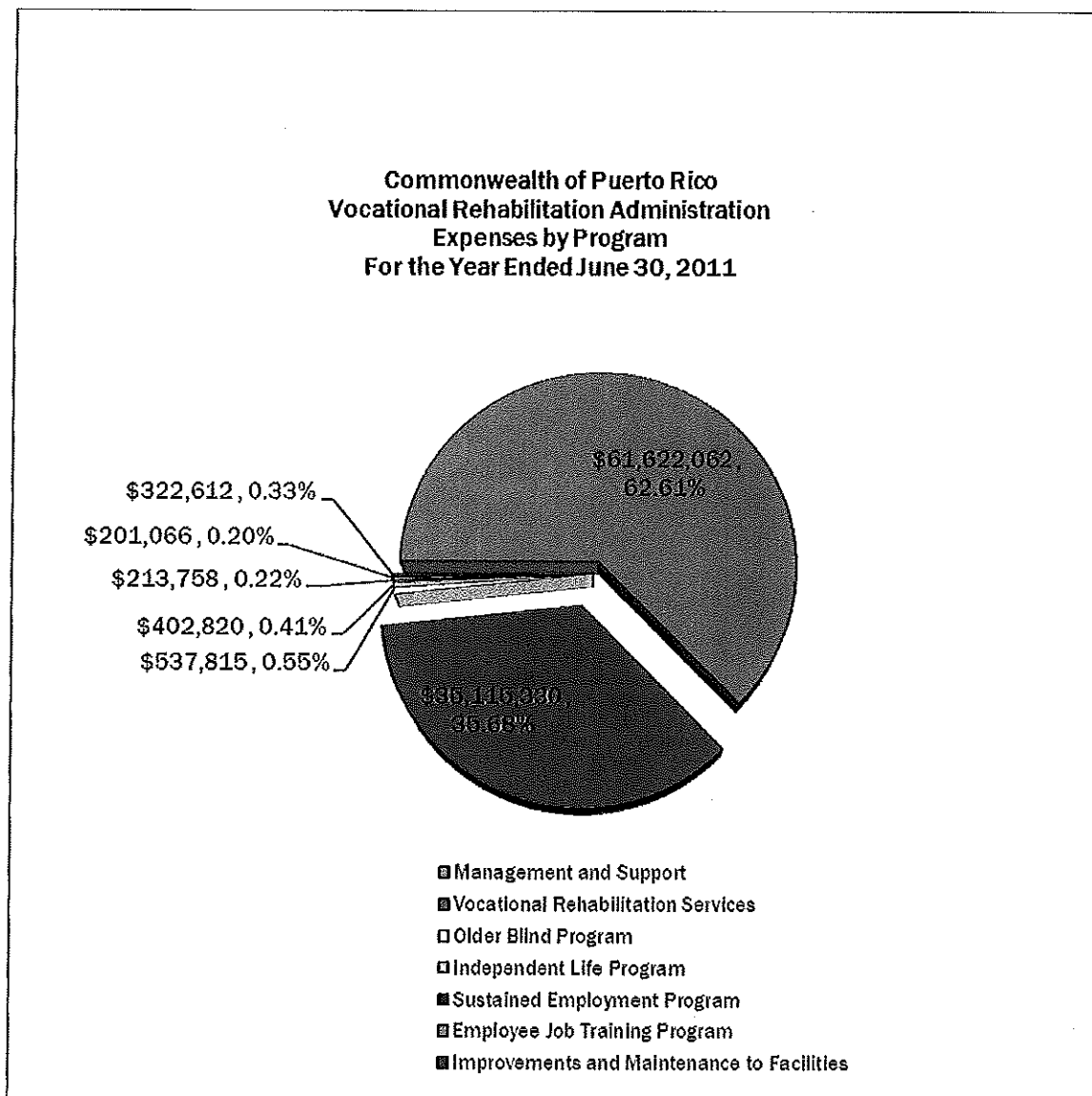
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VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

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The Administration as a Whole (Continued)

The following chart presents expenses by program of the **Administration** for the year ended June 30, 2011:



COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2011

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Capital Assets

At the end of June 30, 2011, the **Administration** had \$2.96 million invested in equipment, furniture, and motor vehicles (net of depreciation). The following table summarizes the amounts invested in capital assets as of June 30, 2011 and 2010:

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

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2011</u>	<u>2010</u>
Equipment	\$2.47	\$1.56
Furniture	0.47	0.01
Motor Vehicles	<u>0.02</u>	<u>0.02</u>
	<u>\$2.96</u>	<u>\$1.59</u>

General Fund Budgetary Highlights

The 2010-2011 General Fund Budget amounted to \$17,093,000 or \$44,789 more than actual expending (\$17,048,211). The Central Government also approved a fiscal stabilization fund of \$1,578,000.

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 (DEFICIT)

June 30, 2011

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	Governmental Activities
Assets	
Current Assets	
Cash and resources with fiscal agent	\$ 2,884,156
Receivables	<u>3,394,843</u>
Total current assets	6,278,999
Capital assets, net	<u>2,958,210</u>
Total assets	<u>\$ 9,237,209</u>
Liabilities	
Current liabilities	
Accounts payable	\$ 5,321,448
Accrued compensated absences, current portion	5,815,524
Accrued termination benefits, current portion	<u>1,114,001</u>
Total current liabilities	<u>12,250,973</u>
Non-current liabilities	
Accrued compensated absences, non-current	4,397,994
Accrued termination benefits, non-current	<u>7,778,406</u>
Total non-current liabilities	<u>12,176,400</u>
Total liabilities	<u>\$ 24,427,373</u>
Net assets (deficit)	
Invested in Capital Assets, net	\$ 2,958,210
Restricted for improvements and maintenance to facilities (deficit)	(17,668)
Unrestricted (deficit)	<u>(18,130,706)</u>
Total net assets (deficit)	<u>\$ (15,190,164)</u>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**STATEMENT OF ACTIVITIES
JUNE 30, 2011**

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	Cost and expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets – All Governmental Activities
Programs			
Governmental Activities:			
Management and Support	\$ 61,622,062	\$ 58,919,456	\$ (2,702,606)
Vocational Rehabilitation Services	35,115,330	30,795,472	(4,319,858)
Older Blind Program	537,815	524,511	(13,304)
Independent Life Program	402,820	376,949	(25,871)
Sustained Employment Program	213,758	199,768	(13,990)
Employee Job Training Program	201,066	201,154	88
Improvements and Maintenance to Facilities	<u>322,612</u>	<u>273,316</u>	<u>(49,296)</u>
Total governmental activities	<u>\$ 98,415,463</u>	<u>\$ 91,290,626</u>	(7,124,837)
Net assets (deficit), beginning			<u>(8,065,327)</u>
Net assets (deficit), ending			<u>\$ (15,190,164)</u>

See accompanying notes to basic financial statements

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2011**

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	<u>General</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and resources with fiscal agent	\$ 122,126	\$ 2,155,991	\$ 606,039	\$ 2,884,156
Receivables	<u>-</u>	<u>2,785,241</u>	<u>609,602</u>	<u>3,394,843</u>
Total assets	<u>\$ 122,126</u>	<u>\$ 4,941,232</u>	<u>\$ 1,215,641</u>	<u>\$ 6,278,999</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 55,138	\$ 4,926,000	\$ 296,731	\$ 5,277,869
Contract retainage payable	<u>836</u>	<u>15,232</u>	<u>27,511</u>	<u>43,579</u>
Total liabilities	<u>55,974</u>	<u>4,941,232</u>	<u>324,242</u>	<u>5,321,448</u>
Fund Balance:				
Restricted to:				
Stabilization fund	-	-	264,970	264,970
Committed to:				
Injured Worker's Rehabilitation	-	-	612,325	612,325
Assigned to:				
Other purposes	<u>66,152</u>	<u>-</u>	<u>14,104</u>	<u>80,256</u>
Total fund balance (deficit)	<u>66,152</u>	<u>-</u>	<u>891,399</u>	<u>957,551</u>
Total liabilities and fund balance	<u>\$ 122,126</u>	<u>\$ 4,941,232</u>	<u>\$ 1,215,641</u>	<u>\$ 6,278,999</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, 2011

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Total Fund Balances per Fund Financial Statements	\$ 957,551
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	2,958,210
Liability of accrued compensated absences are not to be paid with current financial resources and therefore not reported in the fund financial statements	(10,213,518)
Liability of accrued termination benefits are not to be paid with current financial resources and therefore not reported in the fund financial statements	<u>(8,892,407)</u>
Net assets of governmental activities	<u>\$ (15,190,164)</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, 2011**

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	<u>General</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$ 17,093,000	\$ -	\$ -	\$ 17,093,000
Special appropriations	-	-	5,367,658	5,367,658
Federal grants	-	68,804,818	-	68,804,818
Miscellaneous	-	-	25,150	25,150
Total Revenues	<u>17,093,000</u>	<u>68,804,818</u>	<u>5,392,808</u>	<u>91,290,626</u>
EXPENDITURES				
Management and Support	2,015,545	47,066,691	5,816,254	54,898,490
Vocational Rehabilitation Services	15,048,827	20,065,003	1,500	35,115,330
Older Blind Program	-	531,916	-	531,916
Independent Life Program	-	403,451	-	403,451
Sustained Employment Program	-	214,079	-	214,079
Employee Job Training Program	-	201,066	-	201,066
Improvements and Maintenance to facilities	-	322,612	-	322,612
Total Expenditures	<u>17,064,372</u>	<u>68,804,818</u>	<u>5,817,754</u>	<u>91,686,944</u>
Excess (deficiency) of revenues over expenditures	28,628	-	(424,946)	(396,318)
Fund balance, beginning	<u>37,524</u>	<u>-</u>	<u>1,316,345</u>	<u>1,353,869</u>
Fund balance, ending	<u>\$ 66,152</u>	<u>\$ -</u>	<u>\$ 891,399</u>	<u>\$ 957,551</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, 2011**

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Net change in fund balance-total governmental fund	\$ (396,318)
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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 capital outlays exceeded depreciation expense for the period	1,368,843
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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	795,045
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Accrued termination benefits reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>(8,892,407)</u>
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Change in net assets of governmental activities	<u>\$ (7,124,837)</u>
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**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Non-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Management and Support	\$ 1,772,634	\$ 1,802,634	\$ 1,802,634	\$ -
Vocational Rehabilitation Services	<u>15,320,366</u>	<u>15,290,366</u>	<u>15,290,366</u>	<u>-</u>
Total	<u>17,093,000</u>	<u>17,093,000</u>	<u>17,093,000</u>	<u>-</u>
CHARGES TO APPROPRIATIONS				
Management and Support	1,772,634	1,802,634	2,015,545	(212,911)
Vocational Rehabilitation Services	<u>15,320,366</u>	<u>15,290,366</u>	<u>15,032,666</u>	<u>257,700</u>
Total	<u>17,093,000</u>	<u>17,093,000</u>	<u>17,048,211</u>	<u>44,789</u>
Excess (deficiency) of resources over charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,789</u>	<u>\$ 44,789</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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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, 2011 the ratio of Federal to State Funds was approximately 80% / 20% respectively.

Also during the year the Administration received funds from the American Recovery and Reinvestment Act (ARRA) which is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. Its immediate goals includes the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of "accountability and transparency in government spending". The ARRA funds were received by the following programs:

- a. **Rehabilitation Services Vocational Rehabilitation Grants to States, Recovery Act** – The objective of the program is to assist States in operating comprehensive, coordinated, effective, efficient and accountable program of vocational rehabilitation; to assess, plan, develop, and provide vocational rehabilitation services for individual with disabilities, consistent with their strengths, resources, priorities, concern abilities and capabilities so they may prepare for an engage in competitive employment.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 1 – Governmental Environment (Continued)

Funding (Continued)

- b. Independent Living State Grant, Recovery Act – The objective of the program is to supplement the Independent Living States Grants Funds and to assist those entities in improving and expanding the provision of independent living services for individuals with significant disability.
- c. Independent Living Services for Older Individuals who are blind, Recovery Act - The objective of the program is to supplement independent living services to older individuals who are blind that improve or expand services for these individuals; and conduct activities to help improve public understanding of the problems of these individuals and conduct activities to help improve public understanding of the problems of these individuals.

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.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 1 – Governmental Environment (Continued)

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.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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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 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 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.

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, 2011:

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 2 – Summary of significant accounting policies (Continued)

b. Federal Programs

This fund is used to account for all federal grants (including ARRA funds) 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.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 2 – Summary of significant accounting policies (Continued)

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, net of accumulated depreciation.
- 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 Net Assets (Deficit) - these consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets (deficit) 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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 2 – Summary of significant accounting policies (Continued)

- e. Formal budget integration is employed as a management control device during the fiscal year for the general fund.
- f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the **Administration** in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statements purposes, the **Administration** considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present 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, 2011

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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 revenues and other financing sources over expenditures:

Excess (deficiency) of resources over charges to appropriations from the budgetary comparison schedule	\$ 44,789
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	54,657
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>(70,818)</u>
Total revenues over expenditures in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 28,628</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, 2011

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Note 2 – Summary of significant accounting policies (Continued)

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.

Fund balance reporting

For the year ending June 30, 2011, the **Administration** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

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

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 2 – Summary of significant accounting policies (Continued)

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

In the fund financial statements of the **Administration**, governmental funds report amounts for four of the five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification which includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact. The Administration does not have any nonspendable fund balance classification.

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

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

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

Assigned fund balance. This classification reflects the amounts constrained by the **Administration** to be used for specific purposes, but are neither restricted nor committed.

Assigned fund balance include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 2 – Summary of significant accounting policies (Continued)

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

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

Federal Audit Requirements

The U.S. Office of management and Budget (OMB) issued Circular A-133, which establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law July 5, 1996 (Public Law 104-156).

The purposes of the Single Audit Act Amendments of 1996 are as follows:

1. Promote sound financial management, including effective internal controls, with respect to Federal awards;
2. Promote the efficient and effective use of audit resources;
3. Reduce burdens on state and local governments, Indian tribes and nonprofit organizations;
4. Ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of Title 30, United States Code (the "Single Audit Act").

For 2011, the Administration's audit was performed in accordance with Circular A-133. The auditor's report on consideration of the Administration's internal control over financial reporting and tests of other matters are issued with this report.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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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, 2011 the government's bank balances was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$1,773,847</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 injuries in the workplace.

Note 6 – Accounts Receivable

The balance in accounts receivable mainly represents federal funds expended on or before June 30, 2011 that were reimbursed by the Federal Government during fiscal year ending June 30, 2012.

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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Note 7 – Capital Assets

Capital assets' activity of the **Administration** for fiscal year ended June 30, 2011 was as follows:

	<u>Balance as of June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of June 30, 2011</u>
Capital assets being, depreciated:				
Equipment	\$7,785,243	\$ 1,433,391	\$ -	\$ 9,218,634
Furniture	140,065	503,903	-	643,968
Vehicles	<u>109,460</u>	<u>-</u>	<u>-</u>	<u>109,460</u>
Total capital assets being, depreciated	<u>8,034,768</u>	<u>1,937,294</u>	<u>-</u>	<u>9,972,062</u>
Less accumulated depreciation:				
Equipment	6,226,630	521,860	-	6,748,490
Furniture	133,730	39,931	-	173,661
Vehicles	<u>85,041</u>	<u>6,660</u>	<u>-</u>	<u>91,701</u>
Total accumulated depreciation	<u>6,445,401</u>	<u>568,451</u>	<u>-</u>	<u>7,013,852</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,589,367</u>	<u>\$1,368,843</u>	<u>\$ -</u>	<u>\$ 2,958,210</u>

Depreciation expense was charged to the Management and Support function.

Note 8 – Accrued compensated absences

	<u>Balance as of June 30, 2010</u>	<u>Net Change</u>	<u>Balance as of June 30, 2011</u>	<u>Due within one year</u>
Accrued vacations and sick leave	<u>\$ 11,008,563</u>	<u>\$ (795,045)</u>	<u>\$ 10,213,518</u>	<u>\$ 5,815,524</u>

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 9 – Voluntary Termination Benefits

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

The financial impact resulting for the benefits granted to participants on this program was the recognition within the **Administration's** financial statements of a liability of \$8,892,407 in the statement of net assets as of June 30, 2011 and a charge of \$9,916,815 in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 3.04%.

	Balance as of June 30, 2010	Additions	Reductions	Balances of June 30, 2011	Due within One year
Accrued termination benefits	\$ -- =====	\$9,916,815 =====	\$(1,024,408) =====	\$ 8,892,407 =====	\$1,114,001 =====

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 10 - 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.

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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 10 - Contingencies (Continued)

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.

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

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 10 – Contingencies (Continued)

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, 2011 amounted to approximately \$2,386,260. Total payroll covered was approximately \$29,764,733.

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, 2011, a copy of which can be obtained directly from the Administration of Retirement Systems of the Commonwealth of Puerto Rico.

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, 2011 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.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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Note 11 – 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, 2011 amounted to approximately \$4,133,238. Future operating lease commitments are scheduled as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 295,000
2013	187,000
2014	172,000
2015	172,000
2016	137,000
2017-2021	650,000
2022-2026	<u>130,000</u>
	<u>\$ 1,743,000</u>

Encumbrances

At June 30, 2011 the **Administration** had the following encumbrances by fund:

<u>Fund</u>	<u>Amount</u>
General	\$ 54,657
Federal Programs	5,817,641
Other Governmental Funds	<u>2,260</u>
	<u>\$ 5,874,558</u>

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2011**

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Federal Grantor/Pass-Through Grantor and Program or Cluster	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
U.S. Department of Education:		
Direct programs:		
Rehabilitation Services – Vocational Rehabilitation Grants To States	84.126	\$ 59,442,760
Vocational Rehabilitation Grants To States – ARRA (Cluster)	84.390	8,011,546
Independent Living State Grants States Grants	84.169	270,370
States Grants – ARRA	84.398	133,081
Rehabilitation Services – Independent Living Services for Older Individuals who are Blind States Grants	84.177	364,659
States Grants – ARRA	84.399	167,257
Supported Employment Services for Individuals with Severe Disabilities – Supported Employment State Grants	84.187	214,079
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	<u>201,066</u>
Total expenditures of federal awards		<u>\$ 68,804,818</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2011**

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GENERAL

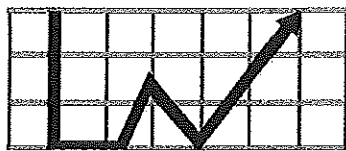
The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the **Administration** from all federal programs for the year ended June 30, 2011. The **Administration's** reporting entity is defined in Note A to the financial statements.

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, 2011 amounted to \$68,804,818.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, 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, 2011, which collectively comprised the **Administration's** basic financial statements and have issued our report thereon dated December 29, 2011. 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 opinions 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 **entity'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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 29, 2011.

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 29, 2011
Stamp No. 2575513 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



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, 2011. 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's** 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 Finding No. 11-01 in the accompanying schedule of findings and questioned costs, the **Administration** did not comply with the compliance requirement regarding cash management that is applicable to its major program. Compliance with such requirement is necessary, in our opinion, for the **Administration** to comply with the requirements applicable to that program.

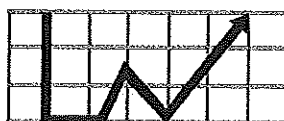
In our opinion, except for the noncompliance described in the preceding paragraph, the **Administration** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the **Administration's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance, that all deficiencies, significant deficiency, or material weaknesses have been identified. However, as discussed below, we identified certain deficiency in internal control over compliance that we consider to be significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-01 to be material weaknesses.



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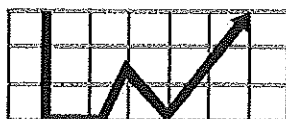
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of finding and questioned costs as item 11-01 to be significant deficiency.

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 29, 2011
Stamp No. 2575514 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, 2011

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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. One (1) significant deficiency 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. Condition is 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 (Cluster)

8. The threshold for distinguishing Types A and B programs was \$2,064,144
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, 2011

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	11-01
Requirement	Cash Management
Statement of Condition	<p>We noted that one petition of funds made by the Administration was not disbursed on a short period of time. On February 11, 2011 the Administration requested a petition of funds amounting to \$12,020,630 to cover some payrolls paid during the year based on information reflected on PRIFAS System. At that date the information included on PRIFAS was not updated and do not reflect the amounts of payrolls already reimbursed. This situation creates excess cash amounting to \$10,115,526. The Administration did not return the excess cash and instead used it to cover other expenditures up to March 30, 2011. The disbursement of such funds took a period of 47 days.</p>
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 did not update the information in the computer system on a timely basis to process the petition of funds with accurate information.</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>

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

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Recommendation	Reevaluate on a monthly basis the petition of funds made by the Administration and compare with the actual expenditures taking in consideration other sources of information.
Questioned costs	None
Management Response	This situation was caused by adjusting expenditures that had been drawn down and adjusted to a carryover fund resulting in cash on hand on the Basic Support Grant. Management has established that no adjustments will be made that affect cash on hand balances. This is the first finding of this nature for Puerto Rico Vocational Rehabilitation Administration. Management has the control to avoid recurrence.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

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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
VOCATIONAL REHABILITATION ADMINISTRATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED) (CONTINUED)
YEAR ENDED JUNE 30, 2011

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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. 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 by management will be presented in the corrective action plan.
Status	Corrected

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2011

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

Finding Reference	10-02
Requirement	Eligibility
Statement of Condition	<p>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.</p>
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 Adminlstration 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

**COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

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

Finding Reference	10-02 (Continued)
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	Corrected

