

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND  
ENVIRONMENTAL RESOURCES**

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

**(With The Additional Reports Required  
By The Governmental Auditing Standards  
And The Uniform Guidance)**

**Rodríguez & Santiago, CPA's, PSC**  
**Certified Public Accountants and Consultants**

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Financial Statements  
For the fiscal year ended June 30, 2020

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## INDEPENDENT AUDITORS' REPORT

Honorable Secretary  
Commonwealth of Puerto Rico  
Department of Natural and Environmental Resources  
San Juan, Puerto Rico

### ***Report on the Financial Statements***

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements - Governmental Funds (the Statement) of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico** (the **Department**), for the fiscal year ended June 30, 2020, and the related notes to the Statement, which collectively comprise the **Department's** financial statement as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the Statement in accordance with the cash basis method of accounting described in **Note 2**; this includes determining that the cash basis method of accounting is an acceptable basis for the preparation of the Statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express our opinion on the Statement 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 Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the **Department's** preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Department's** internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

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### **Basis for Qualified Opinion**

As described on **Note 1**, the **Department** is in the process of adopting and executing a Reorganization Plan (the Plan). The Plan was adopted pursuant the provisions and requirements of enacted laws, which transfers and consolidates in the **Department**, the faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the EQB"), the Solid Waste Authority (hereinafter "the SWA") and the Program of National Parks attached to the Department of Recreation and Sports, hereinafter "the National Parks Program" (NPP).

Based on the above, the cash receipts and disbursement of the EQB and NPP programs are presented on the **Department's** accompanying Statement of Cash Receipts and Disbursements. However, the SWA financial statements are prepared using the accrual method of accounting, which is a different method of accounting from the method used by the **Department**. Accordingly, the financial statements of the SWA cannot be consolidated and presented in the **Department's** Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020.

### **Qualified Opinion**

In our opinion, except for the effect of the matter discussed in the "Basis for Qualified Opinion" paragraph, if any, the Statement referred to above presents fairly, in all material respects, the cash receipts and cash disbursements of the **Department's** governmental funds for the fiscal year ended June 30, 2020, in conformity with the basis of accounting described in **Note 2**.

### **Emphasis of Matter**

#### **Financial Deterioration of the Commonwealth of Puerto Rico (The Commonwealth)**

As discussed in **Note 8** to the Statement, the **Department** is part of the Commonwealth. As of June 30, 2020, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the **Department** depends completely on appropriations from the Commonwealth, the financial condition and liquidity of the **Department** could be similarly affected.

### **Basis of Accounting**

As described on **Note 2**, the Statement referred to above was prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Report on Required Supplementary Information**

The **Department** has not presented the management's discussion and analysis that is necessary to supplement although not required to be part of this Statement.

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**Other Matter**

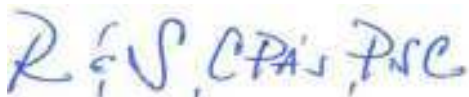
**Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the **Department's** Statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the Statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Statement.

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

**Other Reporting Required by Government Auditing Standards**

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



**RODRIGUEZ & SANTIAGO, CPA's, PSC**

San Juan, Puerto Rico  
September 24, 2021

The Stamp Number **E459208** was  
affixed in the original of this Report.

**Rodriguez & Santiago, CPA's, PSC**  
Certified Public Accountants and Consultants

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS  
For the Fiscal Year Ended June 30, 2020

	General Fund	Special Revenue Fund	Federal Fund	Total Governmental Funds
<b>CASH RECEIPTS:</b>				
Legislative appropriations	\$ 36,828,261	\$ -	\$ -	\$ 36,828,261
Federal grants	-	-	6,216,773	6,216,773
State special grants	-	15,666,242	-	15,666,242
Charge for service	-	4,788,693	-	4,788,693
National parks program	8,996,621	-	-	8,996,621
Environmental quality program	<u>16,161,000</u>	<u>14,512,999</u>	<u>24,778,108</u>	<u>55,452,107</u>
Total cash receipts	<u>61,985,882</u>	<u>34,967,934</u>	<u>30,994,881</u>	<u>127,948,697</u>
<b>CASH DISBURSEMENTS:</b>				
Executive management	11,003,212	4,373,486	145,864	15,522,562
Administration	180,865	-	-	180,865
Management affairs	2,578,374	196,746	427,158	3,202,278
Consulting assistance	857,035	-	44,140	901,175
Environmental education and information	248,945	-	145,248	394,193
Living resources	2,615,778	627,264	6,030,060	9,273,102
Permits endorsement and specialized services	840,681	-	152,081	992,762
Integral planning	744,323	-	247,287	991,610
Rangers	9,920,246	-	485,462	10,405,708
Regional coordination	1,711,601	-	-	1,711,601
Water and mineral resources	1,233,462	11,754,652	-	12,988,114
National parks program	8,779,836	1,594,695	-	10,374,531
Environmental quality program	<u>6,926,127</u>	<u>10,949,453</u>	<u>28,018,054</u>	<u>45,893,634</u>
Total cash disbursements	<u>47,640,485</u>	<u>29,496,296</u>	<u>35,695,354</u>	<u>112,832,135</u>
Excess (deficiency) of Cash Receipts Over (under) Cash Disbursements	<u>\$ 14,345,397</u>	<u>\$ 5,471,638</u>	<u>\$ (4,700,473)</u>	<u>\$ 15,116,562</u>

See accompanying notes to the statement of cash receipts and cash disbursements.

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1. ORGANIZATION AND REPORTING ENTITY

A. Organization:

The **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico (the Department)** is an instrumentality and part of the executive branch of the Commonwealth of Puerto Rico. The **Department** was created by Act No. 23 of June 20, 1972, as amended, to manage, protect, conserve, and develop the natural resources and the environment of the island of Puerto Rico.

The **Department** is in charge of developing and implementing their tasks in accordance with the duties and responsibilities conferred by the Constitution and the Laws in force in accordance with the established environmental public policy.

The **Department** is under the direction and supervision of a Secretary appointed by the Governor of Puerto Rico. The Secretary of the **Department** is responsible for the design, implementation and supervision of the operations of the **Department**, including its fiscal organization.

On August 2, 2018, Law No. 171 was enacted for the purpose of executing and complying with the Reorganization Plan of the **Department** (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the **Department**, the faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the EQB"), the Solid Waste Authority (hereinafter "the SWA") and the Program of National Parks attached to the Department of Recreation and Sports, hereinafter "the National Parks Program" (NPP), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the **Department** shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017. Also, the **Department** shall be responsible for implementing the public policy of the Government of Puerto Rico contained in section 19 of Article VI of the Constitution.

For these purposes, it will put into effect programs for the use and conservation of the environment and natural resources of Puerto Rico in accordance with the provisions of Act 416-2004, as amended, known as the "Environmental Public Policy Act."

On September 6, 2019, the Secretary of the **Department** issued an Administrative Order No. 2019-04 to establish the process to finish the reorganization of the **Department** under the provisions of Law No. 171-2018.

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

As of the date of the financial statement, the **Department** has not finished the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the **Department**, the EQB and the ADS are kept using different accounting systems and internal controls. Also, the **Department**, the PNP and the EQB uses the cash method basis of accounting, while ADS uses the accrual method of accounting for financial statement presentation.

In order to complete the Reorganization Plan described before, the **Department** have implemented the following measures:

- ✓ The accounts of the NPP were integrated in the PRIFAS Accounting System effective on January 1, 2019. Since that date, the resources and expenditures of the NPP have been recognized as a program in the **Department's** Statement of Cash Receipts and Cash Disbursements.
- ✓ The cash receipts and cash disbursements related to the resources and expenditures of the EQB were combined and accounted for in the **Department's** Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020. The cash basis financial information of the EQB is presented as a program in the **Department's** Statement of Cash Receipts and Cash Disbursements.

On July 1<sup>st</sup>, 2019, the Puerto Rico Treasury Department created a set of accounts to recognize the transactions of the EQB as a part of the Department on the PRIFAS Accounting System in order to consolidate the accounting records as a part of the Reorganization Plan.

- ✓ The SWA's main purpose is to provide alternatives for the processing of solid waste in Puerto Rico. Also, the SWA has the responsibility of educating the community in this respect, as well as the implementation of the required programs needed for the reduction and reuse of solid waste. The SWA financial statements are prepared using the accrual method of accounting, which is a different method of accounting from the method used by the **Department**. Accordingly, the financial statements of the SWA cannot be consolidated and presented in the **Department's** Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020.



COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)  
For the Fiscal Year Ended June 30, 2020

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

Also, the SWA's audited financial statements for the fiscal year ended June 30, 2020 are not available at September 24, 2021, the date of issuance of the **Department's** Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2020. However, the information of the SWA's Unaudited Statement of Financial Position and Unaudited Statement of Activities as of and for the year ended June 30, 2020 are presented below.

The following is a summary of the financial information of the Solid Waste Authority, based on interim unaudited financial statements as of June 30, 2020:

**SOLID WASTE AUTHORITY**  
*(Now the Department of Natural and Environmental Resources)*  
*Statement of Net Position – Unaudited*

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 11,494,254
Accounts receivable, net of allowance for doubtful accounts	<u>5,010,902</u>
Total current assets	<u>16,505,156</u>

**Non-current assets:**

Due from Commonwealth of Puerto Rico	404,621
Capital assets, net of accumulated depreciation	<u>88,900,300</u>
Total non-current assets	<u>89,304,921</u>

Deferred outflows of resources	<u>491,764</u>
Total assets	<u>\$ 106,301,841</u>

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)  
For the Fiscal Year Ended June 30, 2020

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

**SOLID WASTE AUTHORITY**  
*(Now the Department of Natural and Environmental Resources)*  
*Statement of Net Position – Unaudited (Continued)*

LIABILITIES AND NET POSITION

Current liabilities:

Current portion of long-term obligations:

Accrued compensated absences	\$ 160,363
Voluntary termination benefits	313,899
Bond payable	1,229,378
Accounts payable	3,797,778
Accrued liabilities	2,158,805
Deferred revenues	4,540,874
Due to governmental entities	<u>3,883,583</u>
Total current liabilities	<u>16,084,680</u>

Non-current liabilities:

Lines of credit	50,237,237
Bonds payable	6,549,813
Due to other governmental entities	4,541,117
Accrued compensated absences	260,163
Voluntary termination benefits	2,350,441
Net pension liability	6,312,258
Other post-employment benefits liability	<u>169,484</u>
Total non-current liabilities	<u>70,420,513</u>

Total liabilities 86,505,193

Deferred inflows of resources 874,928

Net position:

Net investment in capital assets 38,663,063  
Unrestricted (19,741,343)

Total net position 18,921,720

Total liabilities and net position (deficit) \$ 106,301,841

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)  
For the Fiscal Year Ended June 30, 2020

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

**SOLID WASTE AUTHORITY**

*(Now the Department of Natural and Environmental Resources)*

*Statement of Revenues, Expenses and Changes in Net Position – Unaudited*

Operating revenues	\$ 1,050,507
Operating expenses	<u>(7,631,174)</u>
Operating loss before non-operating revenues (expenses)	(6,580,667)
Total non-operating revenues (expenses)	<u>3,555,930</u>
Change in net position	(3,024,737)
Net position (deficit) at beginning of fiscal year	<u>21,946,457</u>
Net position at end of fiscal year	<u>\$ 18,921,720</u>

B. Financial Reporting Entity

The **Department** is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because the **Department** is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. The **Department** accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of The **Department's** management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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2. SUMMARY OF SIGNIFICANT POLICIES

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The Statement of Cash Receipts and Cash Disbursements of the **Department** is intended to present the receipts and disbursements on only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Department**, solely to provide the **Department's** operating results to the Commonwealth of Puerto Rico and certain federal awarding agencies to comply with the Single Audit Act of 1984, P.L. 98-502, as subsequently amended, and are not intended to be and should not be used by anyone other than these specified parties.

The **Department's** accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

The cash basis of accounting differs from GAAP primarily because revenue (cash receipts) is recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursements) are recognized when paid rather than when incurred or subject to accrual. No accrual is recognized.

The accounts of the **Department** are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of three (3) funds which are described below. The accounts of the **Department** are accounted for with a set of accounts which only includes cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The following funds account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- ✓ **General Fund** - is the general operating fund of the **Department**. It is used to account for all financial resources, except for those required to be accounted for in another fund.
- ✓ **Special Revenue Fund** - This fund is used to account for the proceeds of specific revenue sources (other than expendable for specific purposes).

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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

- ✓ **Federal Fund** - The **Department** participates in a number of Federal Financial Assistance Programs funded by the Federal Government that are legally restricted to expenditures for specific purposes in accordance with grant agreements. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors

These funds included the following programs:

**Management and Administration** - This program is used to account for resources and expenditures related to providing support and advice to the **Department** by providing tools and mechanisms to facilitate the coordination and execution of the overall administration of the human resources, acquisitions, finance, legal advice and general services. These are composed of the following:

- *Executive Management*
- *Administration*
- *Management Affairs*
- *Consulting Assistance*

**Environmental Education and Information** - This program is used to account for resources and expenditures related to creation, custody and dissemination of educational information and material over the importance to protect our natural and environmental resources.

**Living Resources** - This program is used to account for resources and expenditures related to establishment of public policies related to the use, conservation, development and administration of the forest resources, protected species, endangered species and exotic species, including natural resources in coastal zones and sport fishing and hunting programs.

**Permits, Endorsements and Specialized Services** - This program is used to account for resources and expenditures related to the licensing of the earth extraction permits, franchising and water use permits, concessions and authorization of maritime and land maritime estate.

**Integral Planning** - This program is used to account for resources and expenditures related to the establishment of public policies related to the use, conservation, development and administration of land natural resources.

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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

**Rangers** - This program is used to account for resources and expenditures related to the guardian and protection of all natural resources around the island.

**Regional Coordination** - This program is used to account for resources and expenditures related to cleaning and maintaining in optimum conditions the beaches and rivers among other waters corps and the conservation of life and such property. Facilities to satisfy the needs of the community and to provide support to the service programs are carried on through the regional offices located at Aguadilla, Arecibo, Guayama, Humacao, Mayaguez, Ponce, and San Juan.

**Water and Minerals Resources** - This program is used to account for resources and expenditures related to establishment of public policies related to the use, conservation development and administration of the water and mineral resources around the island. Also, these funds are used for flood control projects.

**National Parks Program** – This program is use to account for resources and expenditures related to the National Parks Program (NPP) operations transferred to the **Department** as a part of the Reorganization Plan described on **Note 1**. The resources and expenditures transactions related to the NPP were transferred and accounted for the **Department** since January 1, 2019.

For the purposes of the Program, in addition to any others provided in the laws or programs whose administration and implementation is delegated to it, the **Department** will have the following functions and responsibilities:

- (a) Operate a system that integrates all natural, recreational or historical parks that are declared national. It will also promote the protection, conservation and recreational use of parks, beaches, forests, historical and natural monuments of Puerto Rico in such a way that they are preserved and maintained in optimal condition for the enjoyment of present and future generations of Puerto Ricans and visitors from abroad.
- (b) Plan, design, build, operate, maintain and preserve recreational and sports facilities.
- (c) Sell, bill and collect, for the services rendered, to other agencies, municipalities and governmental, quasi-public and private organizations; including services rendered to sports and recreational committees, federations and associations.

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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

**National Parks Program (Continued)**

- (d) Dedicate its resources to the development of any activity or company that promotes, directly or indirectly, the means for recreation.
- (e) All recreational and sports facilities may be leased through a reasonable rental fee, provided that the Program may assign its facilities free of charge to non-profit organizations to carry out their activities.
- (f) Be a trustee of the National Parks Trust (the Trust). All the administration and maintenance of the Trust will be carried out by the **Department** through the NPP, in accordance with the purposes of the Trust's constitution. In its capacity as trustee of the Trust, the **Department** will have all the capacities to administer the Trust, being able to exercise its discretion in the management and transfer of funds and real and personal property between both entities for the purposes of the Trust and the amendments to this that the **Department** deems appropriate.
- (g) Protect the integrity of the Puerto Rico National Park System, established by Law 9-2001, as amended, known as the "Puerto Rico National Park System Law", exercising exclusive jurisdiction over the administration, management and development of the existing National Parks and those who are designated in the future. The title and domain of every resource that was declared a National Park will correspond to the **Department** for its protection in perpetuity, providing that the real properties that are part of a National Park may not be leased or sold for a purpose other than consistent with the public interest.

**Environmental Quality Program** - This program is use to account for resources and expenditures related to the Environmental Quality Board operations transferred to the **Department** as a part of the Reorganization Plan described on **Note 1**. The main purpose of this program is to protect the environmental by controlling air, water and land pollution and eliminating noise harmful to health and to promoting a better quality of life. Following is a summary of cash receipts and cash disbursement of this program for the year ended June 30, 2020.

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)  
For the Fiscal Year Ended June 30, 2020

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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

*Environmental Quality Program (Continued)*

**CASH RECEIPT**

Legislative appropriations	\$ 16,161,000
Fines	985,186
Licences	4,931,616
Neumatic and recycling	8,596,197
Federal grants	<u>24,778,108</u>
Total cash receipts	<u>55,452,107</u>

**CASH DISBURSMENTS**

Air quality improvement	29,349
Analysis of environmental test	388,017
Clean air act project	945,380
Emergency response and superfund project	1,075,964
Environmental emergencies	2,077,858
General, administration and direction	3,813,045
Land pollution control	2,223,714
Neumatic and recycling	6,913,770
Pollution control	160,988
Regional Services	819,027
Studies for request of tax exemption	33,181
Water quality improvement	4,651,418
Capitalization grant for clean water state revolving fund	<u>22,761,923</u>
Total cash disbursements	<u>45,893,634</u>
Excess of cash receipts over cash disbursements	<u>\$ 9,558,473</u>



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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

B. Stewardship Compliance and Accountability

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2018-2019 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of the **Department**. The procedures followed in approving the annual budget is as follows:

- ✓ Between November and December, the **Department** submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1 of each fiscal year.
- ✓ At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
- ✓ The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Commonwealth has the authority to make the necessary adjustments to the budget.

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

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2. **SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)**

**C. Inventories**

The **Department** purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as cash disbursements in the financial statement.

**D. Property and Equipment**

Property and equipment acquired are recorded as cash disbursements in the financial statement.

**E. Inter-fund Transactions**

Transfer of expenditures (reimbursements) made by one fund to another are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**F. Compensated Absences**

The employees of the **Department** accrue regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively. The payment of regular vacations and sick leave is recorded when paid.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

Also, the employees hire before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hire after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

On December 16, 2019, the Government enacted Law No. 176 to amend the provisions of Law No.8. Accordingly, annual vacation days were increase to 30 days, which may be accumulated up to sixty (60) days. Also, under the provisions of Law No.1 76, annual sick leave days were increase to eighteen (18) days.

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)  
For the Fiscal Year Ended June 30, 2020

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2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

G. Risk Financing

1. The **Department** is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the instrumentalities and agencies of the Commonwealth of Puerto Rico.

Also, principal officials of the **Department** are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the **Department**.

2. The **Department** carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico.

This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is **\$35** per licensed motor vehicle, which is paid directly to AACA.

3. The **Department** obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR).

These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

4. For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the **Department's** employees

H. Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded when paid.

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3. **CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENTS (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)**

The funds of the **Department** are under the custody and control of the Secretary of the Treasury Department of Puerto Rico pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law”. The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the **Department** in such pooled cash accounts are available to meet its current operating requirements.

***Custodial Credit Risk***

This is the risk that, in the event of the failure of a depository financial institution, the **Department** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth, as amended, adopted by the **Department** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, or banker’s acceptance. Therefore, **Department’s** management has concluded that at June 30, 2020, the custodial credit risk associated with the **Department’s** cash and cash equivalents is considered low.

4. **FUND ADVANCES**

The **Department** receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth’s Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2020, no funds were advanced to the **Department** for this purpose.

5. **LEASE COMMITMENTS**

The **Department** is obligated under certain leases accounted for as operating leases. Operational leases not granted property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Rent paid during the year that ended on June 30, 2020 under these lease agreements amounted approximately to **\$2,268,599** (including **\$2,018,217** incurred by the Environment Quality Program). This amount should be approximately the same expenditures in the following five fiscal years.

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6. EMPLOYEE'S RETIREMENT PLAN

**Pension Retirement System – prior to July 1, 2017**

The **Department** is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

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**6. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

**Pension Retirement System – prior to July 1, 2017 (Continued)**

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a “covered instrumentality” pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth’s fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS’s severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the “District Court”).

**Pension Retirement System – after July 1, 2017**

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

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2018 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

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

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6. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

**Pension Retirement System – after July 1, 2017 (Continued)**

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

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. During the fiscal year 2019-2020, the **Department** was billed and recognized as PayGo charges of **\$6,934,184**.

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

**Participant accounts and contributions** - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least **10%** of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2020, employees' contributions amounted to **\$2,403,944**.

**Payment of benefits** - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2018, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

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6. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

**Pension Retirement System – after July 1, 2017 (Continued)**

**Reform of ERS's governance**

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. Additional information on the Retirement System is provided in its financial statements, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, Puerto Rico 00940-2003.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

**Plan description**

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

**Benefits provided**

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

**Contributions**

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees.



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7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

**Contributions (Continued)**

The **Department's** contribution is financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

8. CONTINGENCIES

**A. Federal Awards**

The **Department** is a grantee in various Federal Financial Assistance Programs funded by the Federal Government. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes.

Substantially all grants are subject to financial and compliance audits by the grantor agencies. All disallowed costs as a result of these audits become a liability of the fund that receives the grant and must be reimbursed to the Federal Government from the **Department's** local funds.

The Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2020 disclosed some instances of noncompliance with applicable laws and regulations and internal accounting and administrative control structure.

Since the **Department's** statement of net assets is not presented, no provision for any liability has been reported for possible federal claims for refunds of those grant funds. The amount, if any, of expenditures which may be disallowed cannot be determined at this time.

**B. Litigations and claims**

The **Department** is a defendant in lawsuits arising in the normal course of operations. The Commonwealth of Puerto Rico Act 104 of June 30, 1955, as amended, establishes that any claims and lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, or against any of its employees, directors, majors, and others, may be represented by the Department of Justice of the Commonwealth of Puerto Rico.

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8. CONTINGENCIES (CONTINUED)

B. Litigations and claims (Continued)

Any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth. 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 public corporations, governmental institutions, or municipalities of the defendants.

C. Effect of Commonwealth fiscal conditions

The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

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

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

Based on the information available from the Commonwealth related to the implementation of its remediation plans as of the date hereof, we cannot conclude about the ultimate outcome of the Commonwealth's fiscal condition in future fiscal periods and the corresponding effect on future revisions of its fiscal plans or additional mitigation measures.

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8. CONTINGENCIES (CONTINUED)

C. Effect of Commonwealth fiscal conditions (Continued)

As part of its normal operating activities, the **Department** is completely dependent on appropriations from Commonwealth. As of June 30, 2020, as described before, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth has provided to the **Department** may be affected in the near future. The **Department** has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its statements and operations and has concluded that, as of June 30, 2020, the **Department** will continue to operate as a going concern for a period not less than twelve months after such date.

D. Impact of COVID-19 Pandemic

On March 12, 2020, the Governor of Puerto Rico declared a state of emergency across the island due to the COVID-19 global pandemic. Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID-19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16, 2020.

The **Department's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place.

On July 1, 2020, the **Department's** administrative and programmatic work was resumed as usual, following the protective measures established by the COVID 19 Contingency Plan issued by the **Department's**.

After that date, the Governor of Puerto Rico has issued several executive orders to deal with the effects caused by the COVID-19 pandemic.

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**9. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339)**

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost **\$3.9** million dollars in public assistance grants have been obligated.

Just two weeks after Hurricane Irma, on September 17, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately **\$508** million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

In order to respond to the catastrophic events mentioned before, the Federal Emergency Management Administration (FEMA) made an obligation of funds of **\$11,331,205** million (from which **\$10,897,684** are related to Hurricane Maria and **\$433,521** are related to Hurricane Irma), during 2019 and **\$29,365,677** during fiscal year 2020 (related to Hurricane María), to provide funding to the **Department** for emergency protective measures uses of force account equipment; emergency work labor, equipment material and rental; uses of force account labor; contracts for debris removal, sediment and sand; contracts for repair critical infrastructure to prevent flooding; contracts for temporary repair of electric substation; and contracts for temporary repair of damage gate system in a touristic area.

Also, during the fiscal year ended June 30, 2020, the **Department** received **\$129,179** related to reimbursements from FEMA for DR-4339 (Hurricane María).

**10. SUBSEQUENT EVENTS**

In preparing these financial statements, the Management has evaluated significant transactions for potential recognition or disclosure through September 24, 2021 the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES**

**Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2020**

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
<b>U.S. Department of Agriculture</b>				
<b>Forest Service</b>				
Direct Programs:				
Urban and Community Forestry Program	10.675		-	\$ 11,154
Forest Legacy Program	10.676		-	91,830
Forest Stewardship Program	10.678		-	60,597
Forest Health Protection	10.680		-	<u>3,175</u>
Total for U.S. Department of Agriculture			-	<u>166,756</u>
<b>U.S. Department of Commerce</b>				
<b>National Oceanic and Atmospheric Administration</b>				
Direct Programs:				
Bipartisan Budget Act of 2018	11.022		-	14,900
Inter-jurisdictional Fisheries Act of 1986	11.407		-	11,912
Coastal Zone Management Administration Awards	11.419		-	1,390,451
Coastal Zone Management Estuarine Research Reserve	11.420		-	613,836
Cooperative Fishery Statistics	11.434		-	126,158
Southeast Area Monitoring and Assessment Program	11.435		-	162,232
Marine Mammal Data Program	11.439		-	99,603
Unallied Science Program	11.472		-	60,081
Coral Reef Conservation Program	11.482		-	<u>254,936</u>
Total for U.S. Department of Commerce			-	<u>2,734,109</u>
<b>U.S. Department of Defense</b>				
Direct Program:				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		-	<u>541,022</u>
Total for U.S. Department of Defense			-	<u>541,022</u>
<b>U.S. Department of the Interior</b>				
<b>Fish and Wildlife Service</b>				
Direct Programs:				
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	15.605		-	2,283,633
Wildlife Restoration and Basic Hunter Education	15.611		-	1,111,645
Enhanced Hunter Education and Safety Program	15.626		-	<u>9,766</u>
Total for Fish and Wildlife Cluster			-	3,405,044
Cooperative Endangered Species Conservation Fund	15.615		-	265,291
State Wildlife Grants	15.634		-	<u>55,166</u>
Total for U.S. Department of Interior			-	<u>3,725,501</u>

Continues

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2020

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
<b>U.S. Department of Transportation</b>				
Direct Program:				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		-	<u>73,590</u>
Total of U.S. Department of Transportation			-	<u>73,590</u>
<b>U.S. Environmental Protection Agency:</b>				
Direct Programs:				
Air Pollution Control Program Support	66.001		-	349,149
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		-	225,841
Multipurpose Grants to States and Tribes	66.204		-	24,393
Water Quality Management Planning	66.454		-	44,741
Capitalization Grants for Clean Water State Revolving Funds	66.458		22,376,583	22,761,923
Beach Monitoring and Notification Program Implementations Grants	66.472		-	233,488
Performance Partnership Grants	66.605		-	2,407,803
TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals	66.707		-	217,998
Hazardous Waste Management State Program Support	66.801		-	405,524
Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreement	66.802		-	5,178
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		-	172,400
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		-	312,196
State and Tribal Response Program Grants	66.817		-	<u>242,807</u>
Total U.S. Environmental Protection Agency			<u>22,376,583</u>	<u>27,403,441</u>
<b>U.S. Department of Homeland Security</b>				
Direct Programs:				
Boating Safety Financial Assistance	97.012		-	670,937
Pre-disaster Mitigation Grant Program	97.047		-	117,803
Homeland Security Grant Program	97.067		-	116,331
Pass-through the PR Central Office of Recovery, Reconstruction and Resilience (COR3):				
Disaster Grants-Public Assistance (presidentially declared disasters)	97.036		-	<u>145,864</u>
Total for U.S. Department of Homeland Security			-	<u>1,050,935</u>
Total of Expenditures of Federal Awards			<u>\$ 22,376,583</u>	<u>\$ 35,695,354</u>

See Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2020

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1. **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico** (the **Department**) under programs of the federal government for the fiscal year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the **Department**, it is not intended to and does not purport to present the financial position, changes in net assets, or cash flows of the **Department**.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis method of accounting. It is drawn primarily from the **Department's** internal accounting records, which are the basis for the **Department's** Statement of Cash Receipts and Cash Disbursements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local, and Indian Tribal Governments* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for Public Assistance Grants (FEMA) are recognized in the period under: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred. The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three digits numbers are assigned by numerical sequence. State or local government redistributions of federal awards to the **Department**, known as "pass-through awards" should be treated by the **Department** though they were received directly from the federal government.

3. **CLUSTER**

A cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs, because they are closely related programs that share common requirements. The Schedule includes the following cluster:

<b>Agency</b>	<b>Federal Program</b>	<b>CFDA Number</b>
U.S. Department of Interior	Sport Fish Restoration Program	15.605
	Wildlife Restoration and Basic Hunter Education	15.611
	Enhanced Hunter Education and Safety	15.626

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Schedule of Expenditures of Federal Awards (Continued)  
For the Fiscal Year Ended June 30, 2020

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4. **INDIRECT COST RATE**

The **Department** has not elected to use the **10%** of minimis indirect cost rate allowed under the 200.414 Indirect (F&A) costs of the Uniform Guidance. However, for the year ended June 30, 2020, the **Department** has negotiated an indirect cost rate of **19.51%** with the U.S. Department of Interior and an indirect cost rate of **27.27%** with the U.S. Environmental Protection Agency (EPA) to those contracts awarded by EPA to the **Department's** Environmental Quality Program.

5. **RELATIONSHIP TO THE STATEMENT**

Expenditures included in the Schedule agree with the amounts included in the accompanying Statement of Cash Receipts and Cash Disbursements.





Rodríguez & Santiago, CPA's, PSC  
Certified Public Accountants and Consultants

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

**Honorable Secretary  
Commonwealth of Puerto Rico  
Department of Natural and  
Environmental Resources  
San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the Statement) of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico**, (the **Department**) for the fiscal year ended June 30, 2020, and the related notes to the Statement, and have issued our report thereon dated September 24, 2021.

Our report on the **Department** statement included an emphasis of matter paragraph indicating that the **Department** has evaluated the possible effects of the budgetary constraints and liquidity risk being faced by the Commonwealth of Puerto Rico, on its statement, and has concluded that, as of June 30, 2020, the **Department** will continue to operate as a going concern for a period not less than twelve months after such date.

***Internal Control over Financial Reporting***

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

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

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***Internal Control over Financial Reporting (Continued)***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **2020-01**, **2020-02** and **2020-03** that we consider to be material weaknesses and as item **2020-04** to be a significant deficiency.

***Compliance and Other Matters***

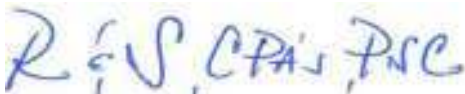
As part of obtaining reasonable assurance about whether the **Department's** Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2020-02** through **2020-04**.

***Department's Response to Findings***

**Department's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

***Purpose of this Report***

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



**RODRIGUEZ & SANTIAGO, CPA's, PSC**

San Juan, Puerto Rico  
September 24, 2021

The Stamp Number **E459209** was  
affixed in the original of this Report.



Rodríguez & Santiago, CPA's, PSC  
Certified Public Accountants and Consultants

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

Honorable Secretary  
Commonwealth of Puerto Rico  
Department of Natural and  
Environmental Resources  
San Juan, Puerto Rico

### *Report on Compliance for Each Major Federal Program*

We have audited the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico** (the **Department**), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Department's** major federal programs for the fiscal year ended June 30, 2020. The **Department's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the **Department's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Department'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 on compliance for each major federal program. However, our audit does not provide a legal determination of **Department's** compliance.

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***Basis for Qualified Opinion on Major Programs***

As indicated in the following table and described in the accompanying Schedule of Findings and Questioned Costs, the **Department** did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the **Department** to comply with the requirements applicable to that program.

<b>Federal Awarding Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding No.</b>
U.S. Department of Commerce	Coastal Zone Management Administration Award – CFDA No. 11.419	Equipment and Real Property Management	2020-02
US Department of Interior	Fish & Wildlife Cluster – CFDA No. 15.605, 15.611 & 15.626	Equipment and Real Property Management	2020-02
	Fish & Wildlife Cluster – CFDA No. 15.605, 15.611 & 15.626	Earmarking	2020-03
US Homeland Security	Boating Safety Financial Assistance CFDA No. 97-012	Equipment and Real Property Management	2020-02

***Qualified Opinion on Major Programs***

In our opinion, except for the non-compliance described in the Basis for Qualified Opinion paragraph, the **Department** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major programs described in the preceding paragraph for the fiscal year ended June 30, 2020.

***Unmodified Opinion on Each of the Other Major Programs***

In our opinion, the **Department** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds identified as major programs in the summary of auditors’ results section of the accompanying schedule of finding and questioned costs for the year ended June 30, 2020.

***Other Matters***

The results of our auditing procedures disclosed other instances of non-compliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2020-02** through **2020-04**. Our opinion on each major federal program is modified with respect to these matters, except for item **2020-04**.

The **Department's** response to the non-compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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***Report on Internal Control over Compliance***

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

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

A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

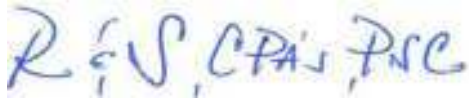
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

We did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questions Costs as items **2020-02** and **2020-03** that we consider to be material weaknesses and as item **2020-04** to be a significant deficiency.

The **Department's** response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Department's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**RODRIGUEZ & SANTIAGO, CPA's, PSC**

San Juan, Puerto Rico  
September 24, 2021

The Stamp Number **E459210** was  
affixed in the original of this Report.

**Rodríguez & Santiago, CPA's, PSC**  
**Certified Public Accountants and Consultants**

**COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2020**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditors’ report issued	<b>Unmodified</b>
Internal control over financial reporting:	
1. Material weakness identified?	<b>Yes</b>
2. Significant deficiencies that are not to be considered material weakness?	<b>No</b>
3. Noncompliance material to financial statement noted?	<b>No</b>

**Federal Awards**

Internal control over major programs:	
1. Material weaknesses identified?	<b>Yes</b>
2. Significant deficiencies that are not to be considered material weakness?	<b>Yes</b>
3. Type of auditor’s report issued on compliance for major program?	<b>Qualified</b>
4. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	<b>Yes</b>

**Identification of Major Programs:**

Name of Federal Program or Cluster:

1. Coastal Zone Management Administration Award	<b>11.419</b>
2. Fish & Wildlife Cluster	<b>15.605, 15.611 &amp; 15.626</b>
3. Capitalization Grants for Clean Water State Revolving Funds	<b>66.458</b>
4. Boating Safety Financial Assistance	<b>97.012</b>

Dollar threshold used to distinguish between Type A and Type B programs **\$1,070,861**

Auditee qualified as a low-risk auditee? **No**

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**SECTION II – Financial Statements Findings**

**Finding Reference 2020-01**

**Requirement: Accounting System**

**Type of Finding: Internal Control over Financial Reporting and on Compliance and Other Matters-  
Material Weakness (MW)**

*This finding is similar to prior year Finding 2019-01*

**Condition**

The Treasury Department of the Commonwealth of Puerto Rico provides accountings services to the **Department** through the Puerto Rico Integrated Financial Accounting System (PRIFAS). Accordingly, many transactions and adjustments might be posted after applicable closing with retroactive effect since information is not readily available for analysis because of the delays in the processing of information through PRIFAS. As a result, the **Department** may not reconcile on a timely basis, the accounting transactions in their system with the ones recorded in (PRIFAS) as required by Regulation Number 49 of March 20, 2007 of the Government of Puerto Rico. Financial transactions not recorded on a timely basis affect the classification and timing of transactions among funds of the receipts and disbursements reported in the financial statement. In addition, the **Department's** record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

Also, as part of our audit procedures over federal expenditures related to the Disaster Grants-Public Assistance program, we noted that non-federal expenditures amounting to **\$1,430,187**, approximately, were accounted for in the federal fund and reported in the Schedule of Expenditures of Federal Awards (SEFA). Adjustments for the reclassification of funds were proposed and approved by the **Department's** management for presentation in this report.

In addition, as described in Note 1 and Note 2, the accounts of the **Department** are organized in three (3) funds presented in the accompanying Statement of Cash Receipts and Disbursements. These funds include different programs that are used to account for resources and expenditures related to the protection of the Environmental and Natural Resources. Since the creation of the Law 171 (The Reorganization Plan) and as of June 30, 2020, the accounting records and transactions of the **Department's** Environmental Quality Program are kept using different accounting system and internal controls than those used for the other programs of the **Department**. This accounting system provides effective control and accountability for all funds managed under the Environmental Quality Program. Accordingly, the condition noted and described above, do not apply to this program.



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**SECTION II – Financial Statements Findings (Continued)**

**Finding Reference 2020-01 (Continued)**

***Criteria***

2 CFR 200 Subpart D, Section 200.302, establish the following:

- a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.
- b) The financial management system of each non-Federal entity must provide for the following:
  1. Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
  2. Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
  3. Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
  4. Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.
  5. Comparison of expenditures with budget amounts for each Federal award.
  6. Written procedures to implement the requirements of § 200.305 Payment.
  7. Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of this part and the terms and conditions of the Federal award.

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**SECTION II – Financial Statements Findings (Continued)**

**Finding Reference 2020-01 (Continued)**

***Effect***

The accounting records currently used by the **Department** contain substantially all financial events; however, the records might not provide on a timely basis adequate financial reports. It may cause delays in the preparation and submission of adequate financial reports to management and federal agencies.

***Cause***

This situation is caused because the **Department** does not have an integrated accounting system to account for funds awarded to them.

***Questioned cost***

None

***Recommendation***

We believe that the **Department** needs to significantly reduce the use of external (Excel) spreadsheets and shift toward an integrated business software system to properly account for and summarized all accounting and financial data. An integrated system would eliminate redundant processing and improve the **Department's** access to information. The system must provide for periodic reporting of transactions and monthly verifications analysis and reconciliation of accounts and federal funds with the information and reports recorded in the Department of Treasury. This will require a sophisticated plan in coordination with the Puerto Rico Department of the Treasury for the implementation of an accounting and financial management system that allows for the preparation of financial information and reports required by the different oversight entities.

***Auditee Response***

See Grantee's Corrective Action Plan

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**SECTION III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference 2020-02**

**Federal Program: US Department of Commerce**  
Coastal Zone Management Administration  
Award-CFDA No. 11.419

**US Department of Interior**  
Fish & Wildlife Cluster-CFDA No. 15.605, CFDA No. 15.611 & CFDA No. 15.626

**US Department of Homeland Security**  
Boating Safety Financial Assistance CFDA No. 97.012

**Compliance Requirement: Equipment and Real Property Management**

**Type of Finding: Internal Control/Compliance over Equipment and Real Property Management -  
Material Weakness (MW)**

*This finding is similar to prior year finding 2019-02*

**Condition**

We do not have assurance on the completeness over property subsidiaries of the **Department**. Management is in the process of the installation of software for the record and update of the property owned by the **Department**, however, it is still not implemented. In addition, last physical count was made in September 2013 and up to the date of this report; the **Department** does not made a physical count of the equipment under the DRNA.

**Criteria**

As per 2 CFR 200.313(d)(l) - Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds the title, the acquisition date, and cost of the property, percentage age of federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any data including the date of disposal and sale price of the property.

As per 2 CFR 200.313(d) (2) -A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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

**Finding Reference 2020-02 (Continued)**

**Criteria (Continued)**

As per 2 CFR 200.313(d) (3) - A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated

**Effect**

Failure to maintain an adequate property subsidiary might cause errors and misuse of the equipment purchased with federal funds that may result in questioned costs, due to possible use of property for unauthorized activities.

**Cause**

The **Department** does not have the appropriate tools (equipment software and personnel) to create complete and accurate records of the equipment owned by under the **Department**.

**Questioned Costs**

None

**Recommendation**

The **Department** shall complete the implementation of the software acquired for the Property Department to create a report with all the fields required by the Federal Awarding Agencies and emphasize the importance of keep and maintains updated records of the equipment under the control of the **Department**. Also, the **Department** should take in consideration to include the physical inventory in their budget every two years to make a contract with an external party to make this physical count or establish an internal procedure in which the persons in charge in every location of the offices under the **Department** have the responsibility of taking a physical inventory count with a standard worksheet to obtain a uniform report.

**Auditee Response**

See Grantee's Corrective Action Plan

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

Finding No. 2020-03

**Federal Program:** **U.S Department of Interior:**  
15.605 Sport Fish Restoration Program  
15.611 Wildlife Restoration and Basic Hunter Education  
15.626 Enhanced Hunter Education and Safety

**Compliance Requirement:** **Earmarking**

**Type of Finding:** **Material Weakness in Internal Control (MW) and Instance of Noncompliance (NC)**

*This finding is similar to prior year finding 2019-03*

**Condition**

As a result of our audit procedures, we were unable to ascertain that the **Department** complies with the earmarking requirement. The **Department** does not provided evidence that demonstrated a correct allocation of funds for the Recreational Boating Access subprogram.

**Criteria**

50 CFR § 80.61, established that a State Fish and Wildlife agency must be allocate 15 percent of its annual allocation for the Recreational Boating Access subprogram. Allocations of more or less than 15 percent require the approval of the Regional Director.

**Effect**

An improper system of internal controls over the earmarking requirements may cause increase on errors, inaccurate or incomplete data, and the inability to comply with the federal requirements.

**Cause**

The **Department's** record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category. The **Department** does not maintain adequate documentation that serves as evidence of the internal control process for the compliance with the earmarking requirements.

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

Finding No. 2020-03 (Continued)

***Questioned Costs***

None

***Recommendation***

We believe that the **Department** needs an integrated accounting system which provides the recording of the budget amount for each grant award approved by the Federal Agencies. Actual expenditures and outlays for each program or subprogram may be compared with budgeted amounts for a specific period as needed. In absence of this system, Management should implement internal controls in this area to ensure compliance with the applicable requirements.

***Auditee Response***

See Grantee's Corrective Action Plan

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

**Finding Reference 2020-04**

**Federal Program:** U.S Department of Homeland Security  
97.012 Boating Safety Financial Assistance Program

**Compliance Requirement:** Reporting

**Type of Finding:** Internal Control/Compliance over Reporting- Significant Deficiency (SD)

**Condition**

As part of our audit procedures performed in the reporting requirements, we noted the following instances of noncompliance:

Federal Financial Reports

We examined the Federal Financial Reports (SF-425) and supporting documentation for the grant awards 3319FAS190172 and 3320FAS200172 related to the reporting periods 09/30/2019 and 12/31/2019, respectively. The dates noted on both reports are not within the 90 days for the final report of the award 3319FAS190172, neither the 30 days for the interim report of the award 3320FAS200172. Also, we do not have assurance that these reports have been submitted by the **Department** to the US Coast Guard. The evidence of the submission was not available for our examination neither an extension or waiver for the submissions of these reports.

Casualty Reports and Annual Report of Vessels

We were unable to ascertain that the **Department** complies with the preparation and submission of the Casualty Reports and Annual Report of Vessels as required. Evidence was not available for our examination.

**Criteria**

As established in the 2 CFR 215.52 (a) (1) (iv) , the Federal awarding agency shall require recipients to submit the SF-425 no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extension of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

As established in 33 CFR 174.121, within 30 days of the receipt of a casualty or accident report, the reporting authority receiving the report must forward a paper or electronic copy of that report to the Commandant (CG-BSX-2), Attn: Boating Safety Division, US Coast Guard Stop 7501, 2703 Martin Luther King Jr. Ave. SE Washington, DC 20593-7501. In addition, the 33 CFR 174.23 established that before March 1 of each year, each state that has an approved numbering system must prepared and submit the annual report of vessels-Coast Guard Form CGHQ-3923 to the Coast Guard.

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

**Finding Reference 2020-04 (Continued)**

***Effect***

Information reported to the Federal agency (US Coast Guard) may be incomplete for decision making purposes. The Federal agency may take enforcement actions if the recipient does not comply with the term and conditions of the federal award.

***Cause***

We could not evaluate if the **Department** complies with federal regulations since information was not available for audit examination. Lack of control over the filing system may cause that documents are misplaced and not available upon request.

***Questioned Costs***

None

***Recommendation***

We recommended that all records of financial information and other reports should be filed and stored in a systematic manner, and a process should be specified for retrieving and replacing documents in an orderly fashion so that they may be easily located when needed.

***Auditee Response***

See Grantee's Corrective Action Plan



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**Finding No. 2019-01: Accounting Records**

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness  
(Repeated in 2018 Report, Finding No. 2018-01)**

**Condition:** The Treasury Department of the Commonwealth of Puerto Rico provides accountings services to the **Department** through the Puerto Rico Integrated Financial Accounting System (PRIFAS). Accordingly, many transactions and adjustments might be posted after applicable closing with retroactive effect since information is not readily available for analysis because of the delays in the processing of information through PRIFAS.

As a result, the **Department** may not reconcile on a timely basis, the accounting transactions in their system with the ones recorded in (PRIFAS) as required by Regulation Number 49 of March 20, 2007 of the Government of Puerto Rico. Financial transactions not recorded on a timely basis affect the classification and timing of transactions among funds of the receipts and disbursements reported in the financial statement. In addition, the **Department's** record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

**Status: Still prevails**

**Finding No. 2019-02: Federal Programs Compliance – Equipment and Real Property Management**

**Internal Control/Compliance over Equipment and Real Property Management - Material Weakness  
(Repeated in 2018 Report, Finding No. 2018-02)**

**Condition:** Accounting record does not provide assurance of the completeness over property subsidiaries of the **Department**. Management is in the process of the installation of software for the record and update of the property owned by the **Department**, however, it is still not implemented. In addition, last physical count was made in September 2013, and up to the date of this report, the **Department** have not made a physical count of all the equipment owned.

**Status: Still prevails**

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**Finding No. 2019-03: Federal Programs Compliance – Earmarking**

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness  
(Repeated in 2018 Report, Finding No. 2018-03)**

**Condition:** As a result of our audit procedures, we were unable to ascertain that the **Department** complies with the earmarking requirement. The **Department** does not provided evidence that demonstrated a correct allocation of funds for the Recreational Boating Access subprogram.

**Status:** **Still prevails**

**Finding No. 2019-04: Federal Programs Compliance – Reporting**

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness**

**Condition:** As a result of our audit procedures, we noted that non-federal expenditures were accounted for in the federal fund and reported on the Schedule of Expenditures of Federal Awards (SEFA). Adjustments for the reclassification of funds were proposed and approved by the **Department's** management for its presentation.

**Status:** **Still prevails**

COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES  
Summary Schedule of Prior Years Audit Findings (Continued)  
For the Fiscal Year Ended June 30, 2020

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2014-06	Federal Financial Report, Allowable Costs/Cost Principle	\$30,331	Condition partially corrected. No final determination has been received.
2015-05	Property and Equipment	None	Condition partially corrected
2015-09	Matching	\$119,084	Condition partially corrected. No final determination has been received.
2015-10	Allowable Costs / Cost Principles	\$390,797	Condition partially corrected. No final determination has been received.
2016-01	Accounting Records		Condition partially corrected during fiscal year 2017.
2016-05	Equipment and Real Property Management		Condition partially corrected during fiscal year 2017.
2017-01	Accounting Records System		Condition still prevails during fiscal years 2018, 2019 and 2020.
2017-02	Equipment and Real Property Management		Condition still prevails during fiscal years 2018, 2019 and 2020.
2017-03	Earmarking		Condition still prevails during fiscal years 2018, 2019 and 2020.



# Gobierno de Puerto Rico

Departamento de Recursos Naturales y Ambientales

## CORRECTIVE ACTION PLAN Single Audit Report 2020 For the Fiscal Year Ended June 30, 2020

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
<b>Finding Reference</b> <b>2020-001</b> Requirement: Accounting System  Internal Control over Financial Reporting and on Compliance and Other Matters- Material Weakness (MW)	The Treasury Department of PR continues evaluating the implementation of an Integrated Accounting System, PRIFAS Version 9.2. Under this System SWA and EQB would be integrated. Currently, the Accounting Reports that are issued will be made with the official information of the PRIFAS 7.5 System, discarding worksheets in Excel. For that purpose, training for employees has been	Waiting for the Treasury Department to implement the new PRIFAS version 9.2. We submitted the training request for the Accounting Personnel, to issue the Accounting Reports with the official information of the PRIFAS 7.5 system.	October 31, 2020	Rafael Machargo - Secretary  Astrid Green - Auxiliary Secretary of Administration  Marjorie Araujo - Finance Director  Katherine Collazo - Acting Accounting Supervisor

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		coordinated with the Treasury Department.			
<b>Finding Reference</b> <b>2020-002</b>	Equipment and Real Property Management  Internal Control/Compliance over Equipment and Real Property Management-Material Weakness (MW)	The DNER is identifying the funds to make a professional services contract for the property inventory. It will be certified by the Property Manager in accordance with the Department of Treasury Regulations.	The Secretary of Administration is identifying the funds.	October 31, 2020	Astrid Green – Auxiliary Secretary of Administration  Angel Vázquez Jiménez  General Service Director  Wanda Lugo – Property Section Employee
<b>Finding Reference</b> <b>2020-003</b>	Earmarking  Material Weakness in Internal Control (MW) and Instance of Noncompliance (NC)	The DNER has already hired a Coordinator for the FWS Coordination Office. We are also developing standard operating procedures for earmarking.	The employee will be sent to take earmarking training.	October 31, 2021	Damaris Delgado – Acting Auxiliary Secretary of Auxiliary Secretary of Conservation and Research  Magaly Massanet – Coordinator For FWS
<b>Finding Reference</b> <b>2020-0004</b>		The Accounting Supervisor will	In progress	October 31, 2020	Marjorie Araujo – Finance Director

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Reporting Internal Control/Compliance over Significant Deficiency (SD)	restructure the filing processes of the Accounting Section.			Katherine Collazo – Acting Accounting Supervisor
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Date: September 28, 2021

Prepared by:

  
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Approved by:

  
 Astrid Green Cáceres  
 Auxiliary Secretary of Administration