

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

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**

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

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

**Financial Statements
For the fiscal year ended June 30, 2021**

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

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, 2021, 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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Opinion

In our opinion, 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, 2021, in conformity with the basis of accounting described in **Note 2**.

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.

Emphasis of a Matter

As described on **Note 10**, on March 15, 2022, the Commonwealth of Puerto Rico's Plan of Adjustment was confirmed and approved. Accordingly, at that date the Plan became effective. As a result of the plan, the **Department** paid **\$10,000,000** from available funds on its Environmental Quality Program.

Also, as discussed in **Note 1**, the financial statement of the **Department** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Department**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

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 on pages **24** and **25** 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.

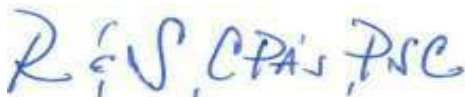
Other Matter (Continued)

Supplementary Information (Continued)

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 December 27, 2022, 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 the effectiveness of the **Department's** 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
December 27, 2022

The Stamp Number **E512153** of the Puerto Rico Society of Certified Public Accountants was affixed in the original of this Report.



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

For the Fiscal Year Ended June 30, 2021

	General Fund	Special Revenue Fund	Federal Fund	Total Governmental Funds
CASH RECEIPTS:				
Legislative appropriations	\$ 63,912,000	\$ -	\$ -	\$ 63,912,000
Federal grants	-	-	34,813,544	34,813,544
State special grants	-	12,169,587	-	12,169,587
Charge for service	-	6,855,750	-	6,855,750
Recycling and waste disposal program	394,000	346,617	-	740,617
National parks program	6,801,000	4,214,308	-	11,015,308
Environmental quality program	<u>7,488,829</u>	<u>18,277,855</u>	<u>20,859,504</u>	<u>46,626,188</u>
Total cash receipts	<u>78,595,829</u>	<u>41,864,117</u>	<u>55,673,048</u>	<u>176,132,994</u>
CASH DISBURSEMENTS:				
Executive management	18,767,602	1,351,668	24,986,464	45,105,734
Management affairs	2,259,676	284,197	1,127,323	3,671,196
Consulting assistance	994,953	-	7,958	1,002,911
Environmental education and information	272,191	-	121,232	393,423
Living resources	2,936,611	830,003	6,689,062	10,455,676
Permits endorsement and specialized services	808,112	2,312,983	222,637	3,343,732
Integral planning	682,659	-	400,919	1,083,578
Rangers	9,250,682	-	316,912	9,567,594
Regional coordination	1,941,716	-	-	1,941,716
Water and mineral resources	1,099,092	11,738,045	-	12,837,137
Recycling and waste disposal program	394,000	1,956,489	-	2,350,489
National parks program	5,461,450	2,753,300	-	8,214,750
Environmental quality program	<u>4,622,289</u>	<u>8,513,630</u>	<u>20,251,274</u>	<u>33,387,193</u>
Total cash disbursements	<u>49,491,033</u>	<u>29,740,315</u>	<u>54,123,781</u>	<u>133,355,129</u>
Excess (deficiency) of Cash Receipts Over (under) Cash Disbursements	<u>\$ 29,104,796</u>	<u>\$ 12,123,802</u>	<u>\$ 1,549,267</u>	<u>\$ 42,777,865</u>

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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements
For the Fiscal Year Ended June 30, 2021

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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.

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, 2021

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

As of the date of the financial statement, the **Department** finished the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the **Department**, the EQB and the SWA were integrated on the **Department's** accounting system.

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, 2021. 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 1st, 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. On July 1, 2020, the Puerto Rico Treasury Department created a set of accounts to recognize the transactions of the SWA 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 cash basis financial information of the SWA is presented as a program in the **Department's** Statement of Cash Receipts and Cash Disbursements.

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.

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, 2021

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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, 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.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the **Department's** financial statement. No long-term debt is reported in the **Department's** financial statement. No accrued compensated absences are reported in the **Department's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursement in the governmental funds column upon cash payment.

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).

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, 2021

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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.

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, 2021

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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.

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, 2021

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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, 2021.

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, 2021

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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	\$ 7,488,829
Fines	76,682
Licenses	6,052,446
Pneumatic and recycling	11,836,310
Others	312,417
Federal grants	<u>20,859,504</u>
Total cash receipts	<u>46,626,188</u>

CASH DISBURSMENTS

Air quality improvement	17,664
Analysis of environmental test	477,529
Clean air act project	1,390,531
Emergency response and superfund project	972,993
Environmental emergencies	1,612,433
General, administration and direction	2,849,496
Land pollution control	831,931
Pneumatic and recycling	4,857,330
Pollution control	159,851
Regional services	782,358
Public disaster assistance fund	129,139
Water quality improvement	3,310,269
Capitalization grant for clean water state revolving fund	<u>15,995,669</u>
Total cash disbursements	<u>33,387,193</u>
Excess of cash receipts over cash disbursements	<u>\$ 13,238,995</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, 2021

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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.

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

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 April 29, 2017, the Governor of the Commonwealth signed into law Act No. 26 of 2017, Compliance with the Fiscal Plan Act (Act No. 26-2017), which among other things, changed the vacation and sick leave accrual formula for all government employees. Under the new law, all employees accrued 1.25 days per month of service up to 60 days for vacation leave. Employees generally accumulate sick leave at a rate of 1 day per month up to an annual maximum of 12 days and an accumulated maximum of 90 days. In addition, Act No. 26-2017 also altered the liquidation terms. After the enactment of Act No. 26-2017, only compensation of accrued vacation leave, up to 60 days, is paid upon employment termination. To be eligible to receive compensation, an employee must have been employed for at least three months. Accumulated unpaid sickness days are no longer liquidated upon employment termination.

The payment of regular vacations and sick leave is recorded when paid.

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, 2021

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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.

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, 2021

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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, 2021, 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, 2021, 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, 2021 under these lease agreements amounted approximately to **\$687,054** (including **\$367,653** incurred by the Environment Quality Program). This amount should be approximately the same expenditures in the following five fiscal years.

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.

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.

6. EMPLOYEE'S RETIREMENT PLAN (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 2020-2021, the **Department** was billed and recognized as PayGo charges of **\$11,512,207**.

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, 2021, employees' contributions amounted to **\$2,405,508**.

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.

6. **EMPLOYEE'S RETIREMENT PLAN (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.

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, 2021

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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, 2021 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 legally represented by the Department of Justice of the Commonwealth of Puerto Rico. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the **Department**.

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, 2021

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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. 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**.

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

On March 11, 2021, was enacted into a law known as American Rescue Plan Act (ARPA) of 2021, the latest COVID-19 stimulus package. Within ARPA, the Coronavirus State and Local Fiscal Recovery Fund provides \$350 billion for states, municipalities, counties, tribes, and territories, including \$130.2 billion for local governments split evenly between municipalities and counties. Eligible use under ARPA include: (1) to respond to the public health emergency; (2) to respond to workers performing essential work during the public health emergency by providing premium pay to eligible workers; (3) for the provision of government services to the extent of the reduction in revenue due to COVID-19 emergency and (4) to make necessary investments in water, sewer or broadband infrastructure.

Accordingly, during fiscal year ended June 30, 2021, the **Department** was awarded and received **\$27,844,763** of ARPA funds, mostly for the provision of government services. These funds were unexpended as of June 30, 2021.

In addition, as described in **note 10**, the **Department** was awarded **\$71,760,536** of ARPA funds during fiscal year 2021-2022.

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, 2021

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

During September 2017, hurricanes Irma and María struck the island of Puerto Rico causing widespread damages throughout the island. These hurricanes made landfall in the island as Category 4 hurricanes causing catastrophic damages to the islands' infrastructure, homes and businesses. The impact of these hurricanes severely damaged property owned by the **Department**.

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 during 2019 and **\$29,365,677** during fiscal year 2020, to provide funding to the **Department** for emergency protective measures (Category B) related to temporary repairs and emergency works labor. Most of funding available for emergency protective measures was expended as of June 30, 2021. During the fiscal year ended June 30, 2021, cost incurred related to the Hurricane Maria (DR-4339) amounted to **\$25,115,603**.

In addition, during fiscal year ended June 30, 2021, the **Department** has been awarded with an obligation of funds amounted to **\$23,612,673** (Federal share for a total of projects costs of **\$26,236,303**). Funds available are for categories D, E & G which provide funding to restore facilities back to the predisaster design, capacity and function to Water Control Facilities, Buildings and Equipment and for Parks and Recreational Facilities, respectively. Works has not been performed under these projects as of June 30, 2021.

10. SUBSEQUENT EVENTS

In preparing these financial statements, the Management has evaluated significant transactions for potential recognition or disclosure through December 21, 2022 the date the financial statements were issued.

Approval of Commonwealth's Plan of Adjustment

Prior to March 15, 2022, the Commonwealth and many of its component units suffered a fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, an economic recession that persisted since 2006, prior liquidity challenges, a high unemployment rate, population decline, and high levels of debt and pension obligations. As the Commonwealth's tax base shrunk and its revenues were affected by prevailing economic conditions, an increasing portion of the Commonwealth's general fund budget consisted of health care and pension-related costs and debt service requirements through fiscal year 2019, resulting in reduced funding for other essential services. The Commonwealth's historical liquidity constraints, among other factors, adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates.

10. **SUBSEQUENT EVENTS (CONTINUED)**

Approval of Commonwealth's Plan of Adjustment (Continued)

On June 30, 2016, the United States Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) to address these problems, which included the establishment of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), an in-court restructuring process under Title III of PROMESA, and an out-of-court restructuring process under Title VI of PROMESA. Thereafter, the Commonwealth and other governmental entities, including the Puerto Rico Sales Tax Financing Corporation (COFINA), the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), the Puerto Rico Highways and Transportation Authority (HTA), the Puerto Rico Electric Power Authority (PREPA), and the Public Building Authority (PBA) initiated proceedings under Title III, and the GDB, the Puerto Rico Infrastructure Financing Authority (PRIFA), and CCDA initiated proceedings under Title VI, each at the request of the Governor to restructure or adjust their existing debt.

On July 30, 2021, the Oversight Board—as representative to the Commonwealth, ERS, and PBA in their respective Title III cases—filed its Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 17629] (the Seventh Amended Plan) and a corrected disclosure statement related thereto [ECF No. 17628], which was approved by the United States District Court for the District of Puerto Rico (the Title III Court).

On October 26, 2021, the Governor signed into law Act No. 53 of 2021 (Act 53), known as the “Law to End the Bankruptcy of Puerto Rico,” which provided legislative approval for the bond transactions contemplated in the Seventh Amended Plan conditioned on the elimination of its monthly pension cut provisions in an amended version of that plan.

On November 3, 2021, the Oversight Board filed its Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. [ECF No. 19053] (the Eighth Amended Plan), which further revised the Seventh Amended Plan to eliminate its monthly pension cut provisions consistent with Act 53, among other things. The hearing to consider confirmation of the Eighth Amended Plan commenced on November 8, 2021, and concluded on November 23, 2021. The final modified version of the Eighth Amended Plan was filed on January 14, 2022 [ECF No. 19813-1] (as confirmed, the Commonwealth Plan of Adjustment).

On January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Eighth Amended Plan [ECF No. 19812] (the Findings of Fact) and an order confirming the Eighth Amended Plan [ECF No. 19813] (the Commonwealth Confirmation Order). In both the Commonwealth Confirmation Order and Findings of Fact, the Title III Court found that Act 53 properly authorized the issuance of new bonds and provided adequate means for implementation of the Commonwealth Plan of Adjustment.

10. SUBSEQUENT EVENTS (CONTINUED)

Approval of Commonwealth's Plan of Adjustment (Continued)

Between January 28, 2022, and February 17, 2022, six appeals of the Confirmation Order were filed in the First Circuit. On March 8, 2022, the First Circuit entered an order dismissing the appeal by the Judge's Association [Case No. 22-1098] following a motion to voluntarily dismiss. By March 11, 2022, the First Circuit denied all parties' motions for a stay pending appeal, which allowed the Commonwealth Plan of Adjustment to become effective despite the appeals. On April 26, 2022, the First Circuit affirmed the Commonwealth Plan of Adjustment with respect to the appeal filed by the teachers' associations. See Case No. 22-1080. Oral argument on the merits of the remaining four appeals [Case Nos. 22-1079, 22-1092, 22-1119, 22-1120] was held on April 28, 2022, but a final determination on those appeals remains pending.

On March 15, 2022 (the Effective Date), the conditions precedent to the Effective Date of the Commonwealth Plan of Adjustment were satisfied and/or waived by the Oversight Board, and the plan became effective. Accordingly, the Commonwealth Plan of Adjustment has been confirmed and is currently effective as of the date hereof. Also, in accordance with the plan, the **Department** paid **\$10,000,000** from available funds on its Environmental Quality Program.

Coronavirus Aid, Relief and Economic Security Act (CARES Act) and American Rescue Plan Act (ARPA) – Stimulus Package

CARES Act

The CARES Act has awarded funds to the Government of Puerto Rico, and part of these funds were allocated to the local governments and agencies, including the **Department**, and other as participating funds transferred through approved proposals. These funds should help the **Department** to cover eligible costs arising from the Covid-19 pandemic emergency. Accordingly, during fiscal year ended June 30, 2022, a total amount of **\$3,000,000** was awarded to the **Department**.

ARPA

As described in **Note 8**, the **Department** was awarded **\$71,760,536** of ARPA funds during fiscal year 2021-2022.

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

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021**

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
U.S. Department of Agriculture				
Forest Service				
Direct Programs:				
Urban and Community Forestry Program	10.675		\$ -	\$ 13,423
Forest Legacy Program	10.676		-	106,248
Forest Stewardship Program	10.678		-	21,547
			-	141,218
Total for U.S. Department of Agriculture				
U.S. Department of Commerce				
National Oceanic and Atmospheric Administration				
Direct Programs:				
Bipartisan Budget Act of 2018	11.022		-	378,012
Inter-jurisdictional Fisheries Act of 1986	11.407		-	10,381
Coastal Zone Management Administration Awards	11.419		-	1,212,140
Coastal Zone Management Estuarine Research Reserve	11.420		-	410,506
Cooperative Fishery Statistics	11.434		-	141,309
Southeast Area Monitoring and Assessment Program	11.435		-	53,574
Marine Mammal Data Program	11.439		-	166,174
Unallied Science Program	11.472		-	21,023
Coral Reef Conservation Program	11.482		-	383,831
			-	2,776,950
Total for U.S. Department of Commerce				
U.S. Department of Defense				
Direct Program:				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		-	296,117
			-	296,117
Total for U.S. Department of Defense				
U.S. Department of the Interior				
Fish and Wildlife Service				
Direct Programs:				
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	15.605		-	2,893,050
Wildlife Restoration and Basic Hunter Education	15.611		-	1,694,909
Enhanced Hunter Education and Safety Program	15.626		-	12,339
			-	4,600,298
Total for Fish and Wildlife Cluster				
Cooperative Endangered Species Conservation Fund	15.615		-	323,223
State Wildlife Grants	15.634		-	88,534
Adaptive science	15.670		-	48,390
			-	5,060,445
Total for U.S. Department of Interior				

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, 2021**

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
U.S. Department of Transportation				
Direct Program:				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		-	4,997
Total of U.S. Department of Transportation			-	4,997
U.S. Environmental Protection Agency:				
Direct Programs:				
Air Pollution Control Program Support	66.001		-	383,598
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		-	179,379
Water Quality Management Planning	66.454		-	144,336
Capitalization Grants for Clean Water State Revolving Funds	66.458		15,516,304	15,995,669
Beach Monitoring and Notification Program Implementations Grants	66.472		-	215,183
Performance Partnership Grants	66.605		-	1,967,742
Hazardous Waste Management State Program Support	66.801		-	340,128
Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreement	66.802		-	3,355
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		-	183,265
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		-	363,553
State and Tribal Response Program Grants	66.817		-	44,815
Total U.S. Environmental Protection Agency			15,516,304	19,821,023
U.S. Department of Homeland Security				
Direct Programs:				
Boating Safety Financial Assistance	97.012		-	717,890
Pre-disaster Mitigation Grant Program	97.047		-	100,852
Homeland Security Grant Program	97.067		-	88,686
Pass-through the PR Central Office of Recovery, Reconstruction and Resilience (COR3):				
Disaster Grants-Public Assistance (presidentially declared disasters)	97.036		-	25,115,603
Total for U.S. Department of Homeland Security			-	26,023,031
Total of Expenditures of Federal Awards			<u>\$ 15,516,304</u>	<u>\$ 54,123,781</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, 2021

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, 2021. 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 Federal Assistance Listing number (formerly known as 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 Assistance Listing 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:

Agency	Federal Program	Assistance Listing Number
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, 2021

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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, 2021, 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.

6. **EXTENSION OF SINGLE AUDIT SUBMISSION**

In accordance with the Federal Office of Management and Budget Memorandum of March 19, 2021, agencies should allow grantees to delay the completion and submission of the single audit report, as required under Subpart F of 2 C.F.R. Part 200 - Audits Requirements, to six (6) months beyond the normal due date. In addition, on September 18, 2022, Puerto Rico was declared a major disaster area due to the pass of the Hurricane Fiona. As a result, the OMB has granted a six months extension for single audit that cover recipients in Puerto Rico and have due dates between September 18, 2022 and December 31, 2022.



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, 2021, and the related notes to the Statement, and have issued our report thereon dated December 27, 2021.

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 **2021-01**, **2021-02**, **2021-03** and **2021-04** that we consider to be material weaknesses.

Compliance and Other Matters

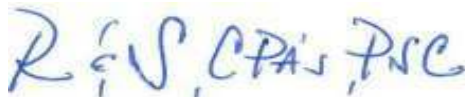
As part of obtaining reasonable assurance about whether the **Department's** Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 **2021-02** through **2021-04**.

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

December 27, 2022

The Stamp Number **E512154** of the Puerto Rico Society of Certified Public Accountants 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, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards, 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.

Federal Awarding Agency	Federal Program	Compliance Requirement	Finding No.
U.S. Department of Commerce	Coastal Zone Management Administration Assistance Listing No. 11.419	Equipment and Real Property Management	2021-02
US Department of Interior	Fish & Wildlife Cluster – Assistance Listing No. 15.605, 15.611 and 15.626	Equipment and Real Property Management	2021-02
	Fish & Wildlife Cluster – Assistance Listing No. 15.605, 15.611 and 15.626	Earmarking	2021-03
US Department of Homeland Security	Disaster Grants – Public Assistance (presidentially declared disasters) Assistance Listing No. 97.036	Reporting	2021-04

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, 2021.

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 **2021-02** through **2021-04**. Our opinion on each major federal program is modified with respect to these matters.

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.

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.

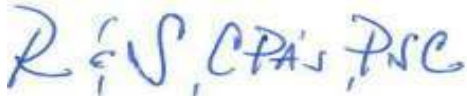
A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 **2021-02**, **2021-03** and **2021-04** that we consider to be material weaknesses.

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.

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
December 27, 2022

The Stamp Number **E512155** of the Puerto Rico Society of Certified Public Accountants was affixed in the original of this Report.



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

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2021**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
1. Material weaknesses identified?	Yes
2. Significant deficiencies that are not to be considered material weakness?	No
3. Type of auditor’s report issued on compliance for major program?	Qualified
4. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	Yes

Identification of Major Programs:

Name of Federal Program or Cluster:	
1. Coastal Zone Management Administration Award	11.419
2. Fish & Wildlife Cluster	15.605, 15.611 and 15.626
3. Disaster Grants – Public Assistance (presidentially declared disasters)	97.036
Dollar threshold used to distinguish between Type A and Type B programs	\$1,623,713
Auditee qualified as a low-risk auditee?	No

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2021

35

SECTION II – Financial Statements Findings

Finding Reference 2021-01

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 2020-01

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.

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, 2021, the accounting records and transactions of the **Department's** Environmental Quality Program are integrated on the **Department's** accounting system. However, the EQB program uses an additional accounting tool to maintain control of budget, finance and payroll related transactions. This accounting tool 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.

SECTION II – Financial Statements Findings (Continued)

Finding Reference 2021-01 (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 assistance listing 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 200.328 Financial reporting and 200.329 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.

SECTION II – Financial Statements Findings (Continued)

Finding Reference 2021-01 (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 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.

Views of Responsible Officials and Planned Corrective Actions

The **Department** agrees with the finding and recommended procedures will be implemented.

SECTION III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2021-02

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

US Department of Interior
Fish & Wildlife Cluster
Award Assistance Listing No. 15.605, 15.611 and 15.626

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 2020-02

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.

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

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

Finding Reference 2021-02 (Continued)

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.

Views of Responsible Officials and Planned Corrective Actions

The **Department** agrees with the finding and recommended procedures will be implemented.

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

Finding No. 2021-03

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 2020-03

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.

Questioned Costs

None

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

Finding No. 2021-03 (Continued)

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.

Views of Responsible Officials and Planned Corrective Actions

The **Department** agrees with the finding and recommended procedures will be implemented.

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

Finding Reference 2021-04

Federal Program: U.S Department of Homeland Security – Pass-through the PR Central Office of Recovery Reconstruction and Resilience (COR3)
97.036 Disaster Grants – Public Assistance (presidentially declared disasters)

Compliance Requirement: Reporting

Type of Finding: Internal Control/Compliance over Reporting- Material Weakness (MW)

Condition

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

Performance Reporting

We were unable to ascertain that the **Department** complies with the preparation and submission of the quarterly progress reports to the pass-through entity as required. Some reports were provided but not for all the quarters of the fiscal year ended June 30, 2021. We do not have assurance of the completeness of the population.

Criteria

As established in the 2 CFR 200.329 (c) (1), the non-Federal entity must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes. Reports submitted annually by the non-Federal entity and/or pass-through entity must be due no later than 90 calendar days after the reporting period. Reports submitted quarterly or semiannually must be due no later than 30 calendar days after the reporting period. Alternatively, the Federal awarding agency or pass-through entity may require annual reports before the anniversary dates of multiple year Federal awards. The final performance report submitted by the non-Federal entity and/or pass-through entity must be due no later than 120 calendar days after the period of performance end date. A subrecipient must submit to the pass-through entity, no later than 90 calendar days after the period of performance end date, all final performance reports as required by the terms and conditions of the Federal award. If a justified request is submitted by a non-Federal entity, the Federal agency may extend the due date for any performance report.

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

Finding Reference 2021-04

Criteria (Continued)

According to the FEMA policy guide, the subrecipient must submit the following for each uncompleted large project on a quarterly basis:

- Total expenditures to date of each project,
- Status of the project
- Projected completion date
- Any circumstances that could delay the project.

Quarterly progress reports are due from recipients on all open large projects 30 days after the end of each calendar quarter.

Effect

Information reported to the Federal agency 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

As explained by management, the person in charge of the preparation of the reports was absent during the audited period due to a military license. No other personnel was assigned to perform this task.

Questioned Costs

None

Recommendation

Management must design written procedures related to the preparation and submission of federal progress reports required by FEMA. Various employees should be trained in those procedures in order to comply with the reporting requirements and the timely submission of the reports.

Views of Responsible Officials and Planned Corrective Actions

The **Department** agrees with the finding and recommended procedures will be implemented.

Finding No. 2020-01: Accounting Records

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness
(Repeated in 2019 Report, Finding No. 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.

Status: Still prevails

Finding No. 2020-02: Federal Programs Compliance – Equipment and Real Property Management

**Internal Control/Compliance over Equipment and Real Property Management - Material Weakness
(Repeated in 2019 Report, Finding No. 2019-02)**

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

Finding No. 2020-03: Federal Programs Compliance – Earmarking

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness
(Repeated in 2019 Report, Finding No. 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.

Status: **Still prevails**

Finding No. 2020-04: 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: **Corrected**

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, 2021

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.
2015-09	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 2021
 For the Fiscal Year Ended June 30, 2021

FINDING	CORRECTIVE ACTION	STATUS	EMPLOYEE
<p>Finding Reference 2021-001 Requirement: Accounting System</p> <p>Internal Control over Financial Reporting and on Compliance and Other Matters Material Weakness (MW)</p>	<p>The Treasury Department Of PR continues evaluating the implementation of an Enterprise Resource Planning (ERP) system and an Enterprise Performance Management (EPM) system. They expect that the system will be implemented on July 2024. Currently, the Accounting Reports are issued with the official information of the PRIFAS 7.5 System. In the meantime for discard Excel sheets, training for employees has been coordinated with the Treasury Department.</p>	<p>The Central Government is working on the design and implementation of an Enterprise Resource Planning (ERP) system and an Enterprise Performance Management (EPM) system. These will achieve the centralization of the fiscal and accounting systems of public agencies, instrumentalities, and public corporations in order to strengthen internal controls and facilitate access to the financial information of the Government of Puerto Rico. The ERP will also enable the government to prepare and publish audited financial statements in a timely</p>	<p>Anaís Rodríguez Secretary</p> <p>Ángel R. Meléndez Auxiliary Secretary of Administration</p> <p>Marjorie Araújo Finance Director</p> <p>Katherine Collazo Acting Accounting Section Supervisor</p>

(Handwritten signatures in blue ink)

FINDING	CORRECTIVE ACTION	STATUS	EMPLOYEE
<p>Finding Reference 2021-002 Equipment and Real Property Management</p>	<p>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</p>	<p>manner.(Attachment 1 Circular Letter 1300-15-22) DNER should identify all the functional requirements needed from the ERP to comply with all federal requirements for federal funds management. Until this project is implemented, DNER will continue using PRIFAS to manage all financial transactions with federal and state funds as usual. For financial reports, queries are submitted through the Data Warehouse System, which generates the Crystal Reports. (Attachment 2 Estimate Date of Completion)</p>	<p>Ángel R. Meléndez Auxiliary Secretary of Administration Ángel Vázquez General Service Director</p>

FINDING	CORRECTIVE ACTION	STATUS	EMPLOYEE
<p>Internal Control / Compliance over Equipment and Real Property Management Material Weakness (MW)</p>	<p>the Department of Treasury Regulations.</p>	<p>approach consisting of first to evaluate the functionality of the system that is used actually of PRIFAS, and then migrating to the new ERP once it has been implemented.</p>	<p>Juan C. Cortes Property Manager</p>
<p>Finding Reference 2021-003 Earmarking Material Weakness in Internal Control (MW) and Instance of Noncompliance (NC)</p>	<p>The DNER has already hired a Coordinator for the FWS Coordination Office. We are also developing standard operating procedure (SOP) for earmarking.</p>	<p>DNER has developed the SOP (Draft) for earmarking. PRDNER FWS Coordination Office and Finance Division will review this draft for final approval that we hope do not extend no further than March 31, 2023. DNER should identify all the functional requirements needed from the ERP to comply with all federal requirements for federal funds management including earmarking.</p>	<p>Farel Velazquez Assistant Secretary for Conservation and Research of Habitats and Biodiversity Magaly Massanet Coordinator for FWS</p>
<p>Finding Reference 2021-004 Reporting Internal Control/Compliance over Reporting-Material Weakness (MW)</p>	<p>A contract was formalized with the Tetra-Tech Company to comply with the quarterly reports. We are currently up to date. In addition, The Recovery and Mitigation Office was created by an Administrative Order. (Attachments 3, Contract</p>	<p>Completed</p>	<p>Ángel R. Meléndez Auxiliary Secretary of Administration</p>

FINDING	CORRECTIVE ACTION	STATUS	EMPLOYEE
	Number 2022-000059 and Attachment 4, Administrative Order)		

Prepared By:



Marjorie A. Araujo Aviles
Finance Director

Approved by:



Anais Rodriguez Vega
Secretary 23 FEB 2023