

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

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

**(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, 2023**

TABLE OF CONTENTS

	Pages
FINANCIAL STATEMENTS:	
Independent Auditors' Report	1-3
Statement of Cash Receipts and Cash Disbursements	4
Notes to Statement of Cash Receipts and Cash Disbursements	5-24
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	25-26
Notes to Schedule of Expenditures of Federal Awards	27-28
INTERNAL CONTROL OVER COMPLIANCE WITH LAWS AND REGULATIONS:	
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	29-30
Independent Auditors' Report on Compliance for Each Major Program on Internal Control Over Compliance Required by Uniform Guidance	31-33
FINDINGS AND QUESTIONED COSTS:	
Schedule of Findings and Questioned Costs	34-38
Summary Schedule of Prior Years Audit Findings	39-41



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 Audit of the Financial Statement

Opinion

We have audited the accompanying cash basis financial statement of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico (the Department)** which comprise the Statement of Cash Receipts and Disbursements – Governmental Funds for the fiscal year ended June 30, 2023, and the related notes to the cash basis financial statement.

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements transactions of the **Department's** governmental funds, and the respective cash basis net changes thereof, for the fiscal year ended June 30, 2023, in conformity with the basis of accounting described in **Note 2**.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Statement section of our report. We are required to be independent of the **Department** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As described in **Note 2**, the **Department** prepares its Statement of Cash Receipts and Disbursements – Governmental Funds 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statement

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

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statement – (continued)

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Department's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Department's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

The **Department's** Statements are intended to present fairly 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, 2023, 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. Our report is not modified with respect to these matters.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the cash basis financial statement that collectively comprise the **Department's** financial statement. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial 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 financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the cash basis financial statement or to the cash basis financial 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 financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Department's** internal controls 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.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within the organization and the Federal Awarding Agencies and is not intended to be and should not be used by anyone other than these specified parties.

R & S, CPAs, PSC

RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico

March 25, 2024

The Stamp Number **E556626** 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

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
For the Fiscal Year Ended June 30, 2023

	General Fund	Special Revenue Fund	Federal Fund	Total Governmental Funds
CASH RECEIPTS:				
Legislative appropriations	\$ 68,243,164	\$ -	\$ -	\$ 68,243,164
Federal grants	-	-	38,415,540	38,415,540
State special grants	-	13,102,157	-	13,102,157
Charge for service	-	37,742,857	-	37,742,857
Recycling and waste disposal program	425,000	-	-	425,000
National parks program	7,776,000	2,342,656	-	10,118,656
Auxiliary Secretary of Environmental Compliance	<u>8,235,301</u>	<u>23,426,117</u>	<u>30,640,122</u>	<u>62,301,540</u>
Total cash receipts	<u>84,679,465</u>	<u>76,613,787</u>	<u>69,055,662</u>	<u>230,348,914</u>
CASH DISBURSEMENTS:				
Executive management	31,975,477	579,466	327,430	32,882,373
Management affairs	2,605,493	85,165	602,085	3,292,743
Consulting assistance	1,207,044	-	-	1,207,044
Environmental education and information	297,353	-	78,298	375,651
Living resources	3,977,346	547,405	8,480,162	13,004,913
Permits endorsement and specialized services	820,291	23,915,472	445,435	25,181,198
Integral planning	444,749	98,835	674,481	1,218,065
Rangers	10,431,342	-	68,098	10,499,440
Regional coordination and operations	3,158,980	-	8,873,499	12,032,479
Water and mineral resources	1,532,974	10,983,412	-	12,516,386
Recycling and waste disposal program	414,648	-	-	414,648
National parks program	7,121,586	454,736	-	7,576,322
Auxiliary Secretary of Environmental Compliance	<u>7,846,413</u>	<u>13,628,291</u>	<u>32,566,558</u>	<u>54,041,262</u>
Total cash disbursements	<u>71,833,696</u>	<u>50,292,782</u>	<u>52,116,046</u>	<u>174,242,524</u>
Excess (deficiency) of Cash Receipts Over (under) Cash Disbursements	<u>\$ 12,845,769</u>	<u>\$ 26,321,005</u>	<u>\$ 16,939,616</u>	<u>\$ 56,106,390</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, 2023

5

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, 2023

6

1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

A. Organization (Continued):

During the fiscal year 2021, 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, 2023. The cash basis financial information of the EQB is now presented as the Auxiliary Secretary of Environmental Compliance ("SACA" as per its spanish acronym) 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.

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, 2023

8

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.

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 and Operations - 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.

Recycling and Waste Disposal Program - This program is used to account for resources and expenditures related to provide alternatives for the processing of solid waste in Puerto Rico and for the education of the community in this respect, as well as the implementation of the required programs needed for the reduction and reuse of solid waste.

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, 2023

10

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.

Auxiliary Secretary of Environmental Compliance (former Environmental Quality Board) - This program is use to account for resources and expenditures related to the former 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 disbursements transactions of this program for the year ended June 30, 2023, which are included on the **Department's** cash basis financial statement at that date.

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, 2023

11

2. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

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

Auxiliary Secretary of Environmental Compliance (Continued)

CASH RECEIPTS

Legislative appropriations	\$ 8,235,301
Fines	244,800
Licenses	11,715,381
Pneumatic and recycling	11,465,936
Federal grants	<u>30,640,122</u>
Total cash receipts	<u>62,301,540</u>

CASH DISBURSMENTS

Air quality improvement	82,289
Analysis of environmental test	435,781
Clean air act project	1,136,079
Emergency response and superfund project	1,228,865
Environmental emergencies	2,426,673
General, administration and direction	5,913,517
Land pollution control	1,726,155
Pneumatic and recycling	9,170,566
Pollution control	315,918
Regional services	814,793
Water quality improvement	4,868,082
Capitalization grant for clean water state revolving fund	<u>25,922,544</u>
Total cash disbursements	<u>54,041,262</u>
Excess of cash receipts over cash disbursements	<u>\$ 8,260,278</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, 2023

12

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.

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, 2023

13

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, 2023

14

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, 2023

15

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, 2023, 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, 2023, 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, 2023 under these lease agreements amounted to **\$418,728** (including **\$297,051** incurred by the Auxiliary Secretary of Environmental Compliance). This amount should be approximately the same expenditures in the following five fiscal years.

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, 2023

16

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.

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, 2023

17

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 2022-2023, the **Department** was billed and recognized as PayGo charges of **\$11,152,617**.

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, 2023, employees' contributions amounted to **\$2,308,405**.

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.

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, 2023

18

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.

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.

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, 2023

19

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, 2023 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**.

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.

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, 2023

20

8. CONTINGENCIES (CONTINUED)

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, 2023, the **Department** received **\$7,972,536** of ARPA funds, mostly for the provision of government services. During the fiscal year ended June 30, 2023 the Department expended funds amounting to **\$8,873,499**.

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, 2023

21

8. CONTINGENCIES (CONTINUED)

D. 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.

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).

8. CONTINGENCIES (CONTINUED)

D. Approval of Commonwealth's Plan of Adjustment (Continued)

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.

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 Auxiliary Secretary of Environmental Compliance.

E. Normative Letter No. 1-2023

On February 21, 2023, the Office of the Administration and Transformation of Human Resources of the Government of Puerto Rico issued the Normative Letter No. 1-2023 in order to comply with the provisions and requirement of Law 8-2017 enacted on February 4, 2017. Law No. 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico," establishes the Government of Puerto Rico as the Sole Employer, which means that public employees will be employees of the Central Government and not of the agencies. In addition, it centralizes the human resources administration system, eliminating from the category of individual administrators all those agencies and public instrumentalities of the Government of Puerto Rico, to guarantee the best use of the services offered by public servants. Also, Law No. 8-2017, in its Article 4, creates the System of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, Human Resources System) which will be administered by the Office of Administration and Transformation of Human Resources of the Government of Puerto Rico (hereinafter, OATRH by its Spanish acronym) with the main purpose of achieving a job classification system aimed at applying, strengthening, evaluating and protecting the Merit Principle in public service. In addition, Law No. 8-2017 gave the OATRH the responsibility of centralizing and unifying the job classification plans of the agencies and public instrumentalities attached to the Central Government.

8. CONTINGENCIES (CONTINUED)

E. Normative Letter No. 1-2023 (Continued)

The classification of positions is based on criteria of uniformity, which is the basis of the equal and fair treatment that the Merit Principle would enter into public service. A job classification plan is a system by which the duties, responsibilities and authorities of positions are studied, analyzed and ordered and grouped into classes or series of classes.

Accordingly, uniform treatment of posts and the employees occupying them is ensured in all matters relating to human resources administration. Among the advantages offered by a job classification plan are the following:

- Facilitates the job classification process.
- Establishes the basis for the recruitment and selection of job candidates, as the class specifications contain the minimum requirements required for classes.
- Provides for the determination of training needs to employees.
- Facilitates the preparation of the budget.
- Facilitates the processes of promotions, transfers and descents.
- Establishes uniform occupational terminology.
- Serves as an instrument for solving problems that may arise in the organization.

The OATRH shall establish and maintain a rational structure of functions that tends to the greatest possible uniformity and that serves as a basis for the different human resources actions in the Central Government, as a Single Employer. The functions for carrying out government programs will be organized in such a way that logical units of work can be identified. These, in turn, will be integrated by groups of duties and responsibilities that will constitute the basic unit of work, that is, the position.

In accordance with the above, the OATRH developed the Job Classification Plans for the Career Service and the Trust Service (hereinafter, Classification Plans) of the Central Government, by virtue of the legal authority conferred on this Office by Article 4, Section 4.3, subsection (2) (o) and (p) of Law No. 8-20173.

The implementation of the Classification Plans was effective as of July 1, 2019. In these Rules to Complete the Implementation Process of the Job Classification Plan of the Central Government Career Service, effective July 1, 2019 and the New Salary Structure that will govern the Career Service of the Central Government, effective January 1, 2023 (hereinafter, the Rules), explains the process of implementing job classification and the new salary structure of the Central Government Career Service.

As of the date of the financial statements, the economic impact, if any, of the implementation of the job classification system described above has not been determined.

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, 2023

24

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**.

As of June 30, 2023, the **Department** has been awarded with an obligation of funds amounted to **\$102,614,099** (Federal share for a total of projects costs of **\$92,512,138**). 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. Some of the projects related to these funds have been initiated but not completed as of June 30, 2023. During the fiscal year 2023, the **Department** only expended funds amounting to **\$327,430**.

10. SUBSEQUENT EVENTS

In preparing these financial statements, the Management has evaluated significant transactions for potential recognition or disclosure through March 25, 2024 the date the financial statements were issued. At that date no significant events that should have been recorded or disclosed in the financial statements were noted.

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

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2023**

25

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:				
Cooperative Forestry Assistance	10.664		\$	\$ 50,190
Urban and Community Forestry Program	10.675		-	249,231
Forest Legacy Program	10.676		-	<u>1,201</u>
Total for U.S. Department of Agriculture			-	<u>300,622</u>
U.S. Department of Commerce				
National Oceanic and Atmospheric Administration				
Direct Programs:				
Bipartisan Budget Act of 2018	11.022		-	1,771,442
Inter-jurisdictional Fisheries Act of 1986	11.407		-	22,415
Coastal Zone Management Administration Awards	11.419		-	1,873,891
Coastal Zone Management Estuarine Research Reserve	11.420		-	356,527
Cooperative Fishery Statistics	11.434		-	76,889
Southeast Area Monitoring and Assessment Program	11.435		-	232,310
Unallied Science Program	11.472		-	66,888
Coral Reef Conservation Program	11.482		-	<u>329,563</u>
Total for U.S. Department of Commerce			-	<u>4,729,925</u>
U.S. Department of Defense				
Direct Programs:				
State Memorandum of Agreement Program For the Reimbursement of Technical Services	12.113		-	<u>602,572</u>
Total for U.S. Department of Defense			-	<u>602,572</u>
U.S. Department of the Interior				
Fish and Wildlife Service				
Direct Programs:				
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	15.605		-	2,128,014
Wildlife Restoration and Basic Hunter Education	15.611		-	1,649,904
Enhanced Hunter Education and Safety Program	15.626		-	<u>132,181</u>
Total for Fish and Wildlife Cluster			-	3,910,099
Cooperative Endangered Species Conservation Fund	15.615		-	674,653
State Wildlife Grants	15.634		-	<u>583,987</u>
Total for U.S. Department of Interior			-	<u>5,168,739</u>
U.S. Department of Transportation				
Direct Program:				
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		-	<u>13,996</u>
Total for U.S. Department of Transportation			-	<u>13,996</u>

Continues

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

**Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2023**

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 Treasury				
Pass-through the Puerto Rico Department of Treasury:				
Coronavirus State and Local Fiscal Recovery Fund	21.027	N/AV	-	<u>8,873,499</u>
Total of U.S. Department of Treasury			-	<u>8,873,499</u>
U.S. Environmental Protection Agency:				
Direct Programs:				
Air Pollution Control Program Support	66.001		-	6,272
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		-	255,619
Multipurpose Grants to States and Tribes	66.204		-	85,351
Water Quality Management Planning	66.454		-	61,976
Capitalization Grants for Clean Water State Revolving Funds	66.458		25,161,300	25,921,268
Beach Monitoring and Notification Program Implementations Grants	66.472		-	295,620
Performance Partnership Grants	66.605		-	2,657,415
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		-	73,948
Hazardous Waste Management State Program Support	66.801		-	1,115,996
Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreement	66.802		-	19,658
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		-	266,113
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		-	1,070,235
State and Tribal Response Program Grants	66.817		-	<u>120,519</u>
Total U.S. Environmental Protection Agency			<u>25,161,300</u>	<u>31,949,990</u>
U.S. Department of Homeland Security				
Direct Program:				
Boating Safety Financial Assistance	97.012		-	149,273
Pass-through the PR Central Office of Recovery, Reconstruction and Resilience (COR3):				
Disaster Grants-Public Assistance (presidentially declared disasters)	97.036	N/AV	-	<u>327,430</u>
Total for U.S. Department of Homeland Security			-	<u>476,703</u>
Total of Expenditures of Federal Awards			<u>\$ 25,161,300</u>	<u>\$ 52,116,046</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, 2023

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, 2023. 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** as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

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, 2023

28

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, 2023, the **Department** was authorized by the U.S. Department of Interior to charge an indirect cost rate of **10%** until a proposal of indirect cost is submitted and approved. Subsequently, on December 20, 2023, the U.S. Department of Interior approved an indirect cost rate of **25.37%** to the **Department** based on the proposal submitted for the fiscal year ended June 30, 2023.

Also, the U.S. Environmental Protection Agency (EPA) approved to the **Department** an indirect cost rate of **46.86%** to those contracts awarded by EPA to the **Department's** Auxiliary Secretary of Environmental Compliance.

5. **RELATIONSHIP TO THE STATEMENT**

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



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the Statement) of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico**, (the **Department**) for the fiscal year ended June 30, 2023, and the related notes to the Statement, and have issued our report thereon dated March 25, 2024. Our report on the financial statements discloses that, as described on Note 2, the **Department** prepares its Statement of Cash Receipts and Disbursements-Governmental Funds on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America

Report on 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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Report on 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 item **2023-01** that we consider to be material weakness.

Report on 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 do not disclosed any instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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
March 25, 2024

The Stamp Number **E556627** 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 FEDERAL 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

Opinion on 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 year ended June 30, 2023. The **Department's** major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the **Department** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance Section of our report.

We are required to be independent of the **Department** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the **Department's** compliance with the compliance requirements referred to above.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statues, regulations, rules, and provisions of contracts or grant agreements applicable to the **Department's** federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **Department's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **Department's** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Department's** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the **Department's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **Department's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above. However, material weaknesses or *significant deficiencies in internal control over compliance* may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Purpose of this Report

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RODRIGUEZ & SANTIAGO, CPA's, PSC

San Juan, Puerto Rico
March 25, 2024

The Stamp Number **E556628** 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, 2023**

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?	Yes

Federal Awards

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

Identification of Major Programs:

Name of Federal Program or Cluster:	
1. Bipartisan Budget Act of 2018	11.022
2. Coastal Zone Management Administration Awards	11.419
3. Fish & Wildlife Cluster	15.605, 15.611 and 15.626
4. Coronavirus State and Local Fiscal Recovery Funds	21.027
5. Capitalization Grants for Clear Water State Revolving Funds	66.458
6. Performance Partnership Grants	66.605
Dollar threshold used to distinguish between Type A and Type B programs	\$1,563,481
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, 2023

35

SECTION II – Financial Statements Findings

Finding Reference 2023-01

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 2022-01

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), as established in the Act 230 of July 23, 1974, as amended. 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, repeals by the Regulation No. 49 of March 14, 2012 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, 2023, the accounting records and transactions of the **Department's** Auxiliary Secretary of Environmental Compliance (SACA) (former Environmental Quality Board) are integrated on the **Department's** accounting system. However, the SACA uses an additional accounting tool to maintain control of budget, finance and payroll related transactions, known as FIMAS (Financial Management System). This accounting tool provides effective control and accountability for all funds managed under the SACA. Accordingly, the condition noted and described above, do not apply to this program.

SECTION II – Financial Statements Findings (Continued)

Finding Reference 2023-01 (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 2023-01 (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

The **Department** is authorized by the Puerto Rico Department of the Treasury to use PRIFAS as the integrated accounting system to account for the funds awarded to them. However, an additional accounting tool (software) is necessary to maintain control of budget, finance and payroll related transactions as maintained by the SACA described above. The Puerto Rico Department of the Treasury has not authorized the use of another financial management system to the **Department**.

Questioned cost

None

Recommendation

We believe that the **Department** needs to significantly reduce the use of external (Excel) spreadsheets and shift toward a financial management & accounting software to properly account for and summarized all accounting and financial data. This 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 PR Department of the Treasury. This will require a sophisticated plan in coordination with the PR 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 recommendation and will follow the Puerto Rico Department of the Treasury plan for the implementation of the new accounting and financial management system to properly accounted for and summarized all accounting and financial data.

SECTION III –Federal Awards Findings and Questioned Costs

During our audit, we did not detected deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the federal awards that are required to be reported in accordance with OMB Uniform Guidance.

Finding No. 2022-01: Accounting Records

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness
(Repeated in 2020 and 2021 Reports; Findings No. 2020-01 and 2021-01)**

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), as established in Act 230 of July 23, 1974, as amended. 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. A similar finding was noted during the audit of fiscal year 2023.

Finding No. 2022-02: Federal Programs Compliance – Equipment and Real Property Management

**Internal Control/Compliance over Equipment and Real Property Management - Material Weakness
(Repeated in 2020 and 2021 Reports; Findings No. 2020-02 and 2021-02)**

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: Corrected.

Finding No. 2022-03: Federal Programs Compliance – Earmarking

**Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness
(Repeated in 2020 and 2021 Reports, Findings No. 2020-03 and 2021-03)**

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: Corrected.

Finding No. 2022-04: Federal Programs Reporting

**Internal Control over Financial Reporting and on Compliance an on Compliance and Other Matters –
Significantt Deficiency**

Condition: The Data Collection Form and the Reporting Package for the year ended June 30, 2022 was not timely submitted to the federal government. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30 day after the receipt of the auditor's report or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. No extension from the cognizant or oversight agency was noted.

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, 2023

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.
2016-05	Equipment and Real Property Management		Condition corrected.
2017-01	Accounting Records System		Condition still prevails during fiscal years 2018, 2019, 2020 and 2021.
2017-02	Equipment and Real Property Management		Condition corrected.
2017-03	Earmarking		Condition corrected.

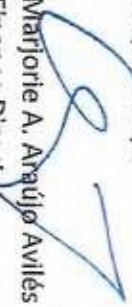


GOBIERNO DE PUERTO RICO
DEPARTAMENTO DE RECURSOS NATURALES Y AMBIENTALES

CORRECTIVE ACTION PLAN
SINGLE AUDIT REPORT 2023
For the Fiscal Year Ended June 30, 2023

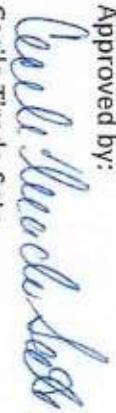
FINDING	CORRECTIVE ACTION	STATUS	EMPLOYEE
<p>Finding Reference 2023-001</p> <p>Requirement: Accounting System</p> <p>Internal Control over Financial Reporting and on Compliance and Other Matters Material Weakness (MW)</p>	<p>The Central Government will design and implement an Enterprise Resource Planning (ERP) system. This will 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 manner.</p> <p>The DNER will identify all the functional requirements needed from the ERP to comply with federal requirements for federal funds management.</p>	<p>The Treasury Department of Puerto Rico continues working on the implementation of the Enterprise Resource Planning (ERP) system. The implementation will be completed in July 2024.</p> <p>Currently the accounting records are kept in the PRIFAS 7.5 system.</p> <p>It should be noted that the employees are taking training for the ERP System.</p>	<p>Analís Rodríguez Secretary</p> <p>Cecile Tirado Chief Financial Officer</p> <p>Marjorie Araújo Finance Director</p> <p>Katherine Collazo Accounting Supervisor</p>

Prepared By:


Marjorie A. Arquijo Avilés
Finance Director

Date: 3/20/2024

Approved by:


Cecile Tirado Soto
Chief Financial Officer