

PUERTO RICO NATIONAL GUARD OF THE COMMONWEALTH
INDEPENDENT AUDITOR'S REPORT AND STATEMENT OF CASH RECEIPTS AND CASH
DISBURSEMENTS

(WITH ADDITIONAL REPORTS AND INFORMATION REQUIRED UNDER
TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200)

YEAR ENDED JUNE 30, 2020

PUERTO RICO NATIONAL GUARD OF THE COMMONWEALTH

YEAR ENDED JUNE 30, 2020

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PART I - FINANCIAL SECTION



Crowe PR PSC
100 Carr 165, Suite 410
Guaynabo, PR 00968-8051
+1 (787) 625-1800
www.crowe.pr

INDEPENDENT AUDITOR'S REPORT

**Puerto Rico National Guard
of the Commonwealth
San Juan, Puerto Rico**

Report on the Financial Statement

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements ("the financial statement") of the **Puerto Rico National Guard of the Commonwealth (the "PRNG")** which comprise the Statement of Cash Receipts and Disbursements for the fiscal year ended June 30, 2020, and the related notes to the financial statement.

Management's Responsibility 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 1; this includes 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 control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

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

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

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the Statement of Cash Receipts and Cash Disbursements of the PRNG for the year ended June 30, 2020, in conformity with the cash basis of accounting as described in Note 1 to the financial statement.

Emphasis of Matter

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The accompanying financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern – Commonwealth of Puerto Rico

As discussed in Note 1, the PRNG is an Executive Agency of the Commonwealth of Puerto Rico. The accompanying financial statement of the PRNG has been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 7 to the financial statement, on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico (the Oversight Board), at the request of the Governor, commenced a case for the Commonwealth by filing a petition for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, et seq. (PROMESA) in the United States District Court of Puerto Rico, which raises substantial doubt about the Commonwealth's ability to continue as a going concern. Considering that the PRNG is dependent on the Commonwealth's appropriations to finance its operations the financial and liquidity of the PRNG could be similarly affected. Our opinion on the Statement of Cash Receipts and Cash Disbursements is not modified with respect to this matter.

Retirement Plan Obligation

As discussed in Note 4, the Puerto Rico Government Employees Retirement System became insolvent in 2017, and payments were assumed by the Commonwealth under a pay-as-you-go plan (Pay Go). However, the pension paid under the PayGo plan to PRNG retirees is not included in the Statement of Cash Receipts and Cash Disbursements presented herein.

Other Matters

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), on pages 14-15, is presented for purposes of additional analysis and is not a required part of the financial statement.

The Schedule of Expenditures of Federal Awards 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 financial statement or to the 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 July 21, 2021, on our consideration of PRNG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRNG's internal control over financial reporting and compliance.

July 21, 2021

Crowe PR PSC



PUERTO RICO NATIONAL GUARD OF THE COMMONWEALTH
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
Legislative appropriations	\$ 10,889,549	\$ -	\$ 36,651,453	\$ 47,541,002
Federal grants and contributions	-	26,690,217	-	26,690,217
Other state contributions	<u>-</u>	<u>-</u>	<u>813,779</u>	<u>813,779</u>
Total cash receipts	<u>10,889,549</u>	<u>26,690,217</u>	<u>37,465,232</u>	<u>75,044,998</u>
Cash Disbursements:				
Payroll and related expenses	4,327,409	4,721,377	-	9,048,786
Facilities and payments for mobilization services	330,306	-	17,638,941	17,969,247
State matching fund allocation	3,779,000	-	1,927,791	5,706,791
Material and supplies	39,022	-	-	39,022
Transportation expenses	9,747	-	-	9,747
Equipment purchased	23,598	-	-	23,598
Purchased services	971,296	-	-	971,296
Other operating expenses	45,450	-	-	45,450
Security and maintenance of military facilities	-	17,497,894	-	17,497,894
Emergency protective measures	-	761,738	-	761,738
Military training to non-enlisted youths	<u>-</u>	<u>4,372,880</u>	<u>-</u>	<u>4,372,880</u>
Total cash disbursements	<u>9,525,828</u>	<u>27,353,889</u>	<u>19,566,732</u>	<u>57,260,228</u>
Excess (deficiency) of cash receipts over cash disbursements	<u>\$ 1,363,721</u>	<u>\$ (663,672)</u>	<u>\$ 17,898,500</u>	<u>\$ 18,598,549</u>

PUERTO RICO NATIONAL GUARD OF THE COMMONWEALTH
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Guard of the Commonwealth of Puerto Rico was created by Act No. 28 of 1917, which was subsequently amended by Act No. 62 of June 23, 1969, as amended. The Act established the PRNG as the duly authorized governmental agency to protect the lives and properties of Puerto Rico residents, to preserve the peace, the order and the public security in emergency situations caused by natural disasters or public riots. The PRNG maintains 48 armories and is present in 30 communities. The PRNG, like the National Guards in all 50 states of the United States of America, is a hybrid organization. National Guards are ordinarily under the control of the State (or, in the case of Puerto Rico, of the Commonwealth) officials, but are organized pursuant to federal statute, and in war time or other emergencies, guard units may be brought under Federal control. The Puerto Rico National Guard and Reserve units support the U.S. Army South's (South COM) many multilateral exercises and programs. It is through this integration of the U.S.A. Active Army, National Guard, and Reserves that South COM can maximize resources to carry out missions.

As part of its programs, the PRNG established the Youth Programs to provide a highly disciplined atmosphere fostering academics, leadership development, physical training, and personal growth to educate and train unemployed high school dropout youths and make them productive members of the community. The PRNG also supports communities using their specialized skills. Medical units provide preventive health care, education, and immunizations in low-income neighborhoods. Guard members also support drug and act enforcement agencies through its Counter Drug program. The PRNG conducts three National Guard Bureau sponsored youth programs: STARBASE, Creando and Challenge.

Financial Reporting Entity

For financial reporting purposes, the PRNG is part of the Commonwealth of Puerto Rico. Its financial data is included as part of the Commonwealth of Puerto Rico's financial statements, and as such, the Department of the Treasury of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the PRNG by the Legislative Branch and Federal Agencies. The Treasury Department also process, and record expenditures made with such funds and provides the PRNG with reports regarding such activities.

The financial information included in the accompanying Statement of Cash Receipts and Cash Disbursements was obtained from the Puerto Rico Treasury Department's Integrated Financial Accounting System (PRIFAS) and is issued solely to comply with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1986, P.L.104-156 and for the information to the federal awarding agencies, pass-through entities, regulators, management, and those charged with the governance.

Financial Statement - Measurement Focus and Basis of Accounting

PRNG'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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement - Measurement Focus and Basis of Accounting (Continued)

The cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are 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. The amounts reported as cash receipts are those received during the fiscal year 2019-2020.

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 PRNG's financial statement. No long-term debt is reported in PRNG's financial statement. No accrued compensated absences are reported in PRNG's financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash disbursement.

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

The PRNG reports the following major governmental funds:

General Fund - The general fund is the primary operating fund of the PRNG. It is used to account for all financial resources, except those required to be accounted for separately. The current financial resources accounted for in this fund consist of legislative appropriations approved by the Commonwealth of Puerto Rico. The general fund is divided in the following programs:

Management and General Administration - This program is used to account for resources and expenditures related to the supervision and coordination of all services and operation of the PRNG.

Security and Conservation of Military Facilities - This program is used to account for resources and expenditures related to the security of military installations, as well as the operation and maintenance of their physical facilities. This program uses state resources and, in some cases, federal funds through service agreements with the Federal National Guard section.

State Guard - This program is used to account for resources and expenditures related to the security, protection, and health services of Puerto Rico, especially in those cases in which the Governor of Puerto Rico activates the State Guard.

Auxiliary Services of Administration - This program is used to account for resources and expenditures related to auxiliary activities and complementary services of all the offices and programs that use state funds and federal service agreements for its operation.

Special Revenue Fund - This fund is used to account for specific revenue sources that are legally restricted to cover disbursements for specific purposes in accordance with the federal regulations. The resources and expenditures accounted for in this fund include the proceeds received from the USA Department of Defense (DoD) and Department of Homeland Security (DHS) to support the operation and maintenance of the National Guard facilities and Federal Emergency Management Agency (FEMA).

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statements - Measurement Focus and Basis of Accounting (Continued)

Other Governmental Funds - This fund is used to account for resources or funds that are deposited for specific purposes with applicable Acts. They may come from service fees, donations, and private entities, other collections from governmental entities, and authorizations by the Legislative of the Commonwealth of Puerto Rico, which are designed to attain specific purposes. The expenditures charged to these accounts are authorized by previously approved legislation.

Stewardship, Compliance, and Accountability

Budgetary Information

On January 2, 2017, the Governor of Puerto Rico signed 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, to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 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 Financial Oversight and Management Board for Puerto Rico, pursuant to the Federal Act 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 PRNG.

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 with approval from the federal agencies. The PRNG is not legally required to prepare the Budgetary Comparison Schedule.

On April 29, 2017, Act No. 26 established that allocations and funds without a specific economic year, that have remained on the books without movement of disbursement or obligation for one year will be considered as having fulfilled their purposes, thus, they will be closed and returned to the General Fund; to provide that those special funds created by Act 26 for specific purposes will be credited to the State Treasury's General Fund and will be deposited in the current bank account of the Secretary of the Treasury for the latter to have full control over the same.

Compensated Absences

Act No. 176 of December 16, 2019, amends subsections (1) and (2) of Section 9.1 of Article 9 of Law 8-2017, as amended, known as the "Law for the Administration and Transformation of Human Resources in the Government of Puerto Rico" to amend the subsections 1 (a) and 2 (b) of Article 2.04 of Chapter 2 of Law 26 2017, as amended, known as the "Law of Compliance with the Fiscal Plan."

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statements - Measurement Focus and Basis of Accounting (Continued)

For the purpose of restoring vacation and sick leave days to Public employees as follows:

Vacation license:

The employee shall have the right to accrue vacation leave, at a rate of two and a half days for each month of service, up to a maximum of sixty business days at the end of each calendar year. Vacation leave will begin to accrue once the three months in employment are completed and will be retroactive to the date of commencement of employment. Reduced regular or part-time employees will accumulate vacation leave proportional to the number of hours they provide service regularly.

Sick leave:

Every employee will have the right to accrue due to illness, at the rate of one and a half days for each month of service. Employees to reduced regular or part-time will accrue sick leave in proportion to the number of hours they provide services regularly. This leave will be used when the employee is ill, incapacitated or exposed to a contagious disease that requires his absence from work for the protection of his health or that of other persons.

Cash with Fiscal Agents (Department of the Treasury of the Commonwealth of Puerto Rico)

The funds of the PRNG 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 Act". 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 PRNG in such pooled cash accounts are available to meet its current operating requirements.

Fund Advances

PRNG 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 will be reimbursed to the General Fund of the Commonwealth's Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2020, funds were not advanced to PRNG for this purpose to be reimbursed to the General Fund.

Excess (Deficiency) Statement Line

The excess (deficiency) of cash receipts over (under) cash disbursements statement line represents the result of using the cash basis of accounting as explained in Note 1. Accordingly, amounts shown in this line are not comparable to an excess or deficiency over funds assigned and do not represent a deficit or surplus of the PRNG. The excess for the year ended June 30, 2020 by approximately \$18.5 million is attributable mainly to emergency support packages of approximately \$33 million from the Puerto Rico Treasury Department to support the COVID-19 pandemic and for conducting vaccination efforts at regional centers and screening people arriving at Luis Muñoz Marín International Airport in Carolina and at the Ceiba airport and maritime ports, to detect possible cases of the COVID-19.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

2. LEASE COMMITMENTS

The PRNG rents its facilities through operating lease agreements with the Puerto Rico Industrial Development, Puerto Rico Port Authority and the Puerto Rico Land Administration, instrumentalities of the Commonwealth of Puerto Rico. The agreements with the governmental instrumentalities provide for rental fees significantly below market value. As of the date of this financial statement was issued, the PRNG was negotiating various expired lease agreements with governmental instrumentalities, including some whose monthly payments have been withheld until the contract is renewed. Effective September 9, 2020, the PRNG rented office space of 18,012 square feet according to the following schedule for the lease term:

<u>Months</u>	<u>Monthly Payments</u>
01-12	\$46,978
13-21	\$47,548
25-26	\$48,734
37-48	\$48,734
49-60	\$49,334

Future minimum rental payments, under existing contracts as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 653,471
2022	587,471
2023	602,459
2024	613,634
2025	620,829
Thereafter	<u>138,693</u>
	<u>\$ 3,216,557</u>

3. RISK FINANCING

The PRNG 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 municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the PRNG are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the PRNG.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

3. RISK FINANCING (CONTINUED)

The PRNG obtains workers compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered because of their employment.

The PRNG 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. RETIREMENT PLAN

On August 23, 2017, Act No. 106 was enacted, which is known as the "Law to Guarantee Payment to our Pensioners". Under this Act, starting July 1, 2017, the General Fund, through the system of "pay-as-you-go" (PayGo), assumes the payments of Employees Retirement System [ERS] of the Government of the Commonwealth, because the retirement plan has depleted the assets set aside to pay benefits.

Under Act No. 106, active employees will be required to contribute a minimum of 8.5% of their compensation, into a defined contribution plan, with no employer matching. Contributions will be deposited in a separate account for each employee and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, plus benefits accumulated in their accounts until the enactment of Act No. 106, including benefits accumulated under previous defined benefit, defined contribution, and hybrid plans, as discussed below. Based on the investment instruments acquired by the participant there are investment risks that may impair the value of the participant account.

Before Act No. 106, the PRNG employees participated in a cost-sharing, multi-employer defined-benefit pension plan administered by the Puerto Rico Government Employees (the ERS Administrator). The ERS, is a trust created by Act No. 447 of May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations, and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth, non-substantially depleted.

The ERS administered different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer defined-benefit program, a defined-contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions were different depending on member's date of hire. Substantially, all full-time employees of the Institute were covered by the ERS. Membership was mandatory for all regular, appointed, and temporary employees of the Institute at the date of employment.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

4. RETIREMENT PLAN (CONTINUED)

The ERS also provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer Christmas bonuses. Act No. 3-2013 and Act No. 160-2013 amended the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On June 30, 2016, the federal Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") was enacted. This US federal law established a Financial Oversight and Management Board (the Oversight Board), a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to combat the debt crisis in the Commonwealth. On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed in the United States District Court for the District of Puerto Rico voluntary petition under Title III of PROMESA for the PRNG and the ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases

Contributions

During the year ended June 30, 2020, the Commonwealth's payments to PRNG pensioners amounted to \$7,845,803 required through the system PayGo Charge. However, since pension benefits under the PayGo System were paid by the Puerto Rico Treasury Department, the related disbursements are not considered within the Statement. During the same fiscal year, PRNG withheld \$592,181 from employees contributions to a defined contribution benefit plan, for which PRNG does not provided a matching contribution.

5. TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program to provide benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the PRNG. The Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the PRNG will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. The window for the employer to select this benefit was for a short period after enactment of Act. No. 70.

Economic incentives were available to eligible employees who had less than 15 years of credited service, who had at least 30 years of credited service and the age for retirement, or who had the age for retirement. Economic incentives consisted of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that chose the economic incentives and had at least 30 years of credited service and the age for retirement, or had the age for retirement, the PRNG will make the employee and the employer's contributions to the Retirement System for a five-year period.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

5. TERMINATION BENEFITS (CONTINUED)

Additionally, eligible employees that chose to participate in the early retirement benefit program, chose the economic incentive and had less than 15 years of credited service been eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the PRNG. No information for payments for termination benefits made by the Commonwealth on behalf of the PRNG during the current fiscal year was available for disclosure.

6. COMMITMENTS AND CONTINGENCIES

Litigation - The PRNG is defendant in lawsuits arising in the normal course of operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the Acts of the Commonwealth of Puerto Rico, the PRNG is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the PRNG. Any claims with negative monetary impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the PRNG.

Federal Awards - The PRNG participates in various of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by appropriate grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the PRNG may be required to reimburse the grantors for such expenditures.

The Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance for the year ended June 30, 2020, disclosed no instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses.

Other Audits - The PRNG is also audited by the Office of the Controller for Puerto Rico (the Controller), the Office of the Inspector General, the Puerto Rico Department of Treasury and other grantor agencies or institutions. The Controller has issued several reports on audits over the operations and management of the PRNG, some of which involve federal programs.

7. GOING CONCERN - COMMONWEALTH OF PUERTO RICO

On May 3, 2017, the Puerto Rico Oversight Board, at the request of the Governor, commenced a Title III case for the Commonwealth by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the Title III Court). Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to Title III cases pursuant to PROMESA section 301(a). Accordingly, upon the filing of the Commonwealth's Title III case, an automatic stay immediately went into effect to stay creditor litigation. On March 13, 2017, the Oversight Board certified the initial fiscal plan for the Commonwealth. New fiscal plans have been approved, thereafter.

On March 12, 2021, the Oversight Board announced that it filed the third amended Plan of Adjustment that reflects agreements reached with creditors after filing the second amended Plan of Adjustment on March 8, 2021. The Plan of Adjustment is anticipated to reduce the debt of the Commonwealth of Puerto Rico to affordable and sustainable levels. The plan reduce the Commonwealth's debt from approximately \$35 billion in outstanding claims by approximately 80% to \$7.4 billion in future debt and reduces the Commonwealth's total debt service payment (including COFINA senior bonds) by more than 60%, from approximately \$90.4 billion to approximately \$34.1 billion, saving Puerto Rico almost approximately \$60 billion in debt service payments.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

7. GOING CONCERN - COMMONWEALTH OF PUERTO RICO (CONTINUED)

Furthermore, on April 23, 2021, the Oversight Board certified its most recent fiscal plan for the Commonwealth (the Oversight Board Fiscal Plan), which included the following categories of structural reforms and fiscal measures:

- (i) Human Capital and Welfare Reform
- (ii) K-12 Education Reform
- (iii) Ease of Doing Business Reform
- (iv) Power Sector Reform
- (v) Infrastructure and Capital Investment Reform
- (vi) Establishment of the Office of the CFO
- (vii) Agency Efficiency Measures
- (viii) Medicaid Reform
- (ix) Enhanced Tax Compliance and Optimized Taxes and Fees
- (x) Reduction in UPR and Municipality Appropriations
- (xi) Comprehensive Pension Reform

There is no certainty that the Oversight Board Fiscal Plan (as currently certified or as subsequently amended and recertified) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on several factors and risks, some of which are not wholly within its control.

The PRNG is highly dependent of the financial support provided by the Commonwealth for its operations. The financial support provided by the Commonwealth is contingent on inclusion of such entity in its General Fund's budget appropriations as approved by the Legislature. Any reduction in the amount of these contributions could result in financial difficulties for the PRNG, including the uncertainty as to their ability to satisfy their obligations as they become due, thereby raising substantial doubts about their ability to continue as a going concern.

8. COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization (WHO) declared the Coronavirus disease caused by a novel coronavirus (COVID-19) as a global pandemic. As a result of the health threat and to contain the virus. United July 2021, the Governor had issued numerous restrictive executive orders, which were substantially terminated at that time, except those related to airport checkpoints. The long-term effect the COVID-19 Pandemic could have on PRNG's operations remains uncertain at the issuance date of the Statement. However, as of the date this financial statement was issued, operations of the PRGN remained significantly unaltered, with significant efforts focused on assistance with the vaccination process, and the control of incoming passengers at the local airports.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2020

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 21, 2021, the date the financial statement was available to be issued. No significant events that should have been recorded or disclosed in the financial statement were noted with exception of the following:

Effective January 1, 2021, the Office for the Administration and Transformation of Vacation and Sickness Licenses issued Special Memorandum Number 40-2020 where they impart the guideline to all agencies to reverse the accrual rule established in Law 176-2019, as disclosed Note 1, and reestablish the accrual rule established in Act No. 8 of February 6, 2017. Under the Act No. 8, PRNG's employees are granted 24 days of vacations and 12 days of sick leave annually. New employees accrue retroactively after the first 3 months of employment. Vacations may be accrued up to a maximum of sixty days and sick leave up to a maximum of ninety days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed.

Federal Funds

The Puerto Rico National Guard received \$ 12.7 million from the Federal Emergency Management Agency (FEMA). The allocation of funds will cover eight permanent repair projects in various facilities that include its headquarters and different training centers. Among the work are improvements to the physical plants in Aibonito, Arecibo, Ceiba, Mayagüez, Ponce, San Juan, Utuado and Vega Baja.

PART II - COMPLIANCE SECTION

PUERTO RICO NATIONAL GUARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
CASH ASSISTANCE:				
U.S. DEPARTMENT OF DEFENSE NATIONAL GUARD BUREAU				
Program Title:				
National Guard Military Operations and Maintenance (O&M) Projects	12.401	N/A	\$ 22,219,271	N/A
National Guard Youth Challenge Program	12.404	N/A	<u>4,372,880</u>	N/A
			<u>26,592,151</u>	
U.S. DEPARTMENT OF HOMELAND SECURITY Federal Emergency Management Agency (FEMA)				
Program Title:				
Disaster Grants – Public Assistance	97.036	N/A	<u>761,738</u>	N/A
			<u>\$ 27,353,889</u>	

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the PRNG under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of OMB Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations.

2. BASIS OF ACCOUNTING

The PRNG reports expenditures reported presented in the Schedule following on the cash receipts and cash disbursements method of accounting as discussed in Note 1 to the Financial Statement. The information is drawn primarily from the PRNG's internal accounting records, which serves as the basis for the PRNG's Statement of Cash Receipts and Cash Disbursements. Such expenditures are recognized following the cost principles contained in the OMB Uniform Guidance, Cost Principles for States, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The titles of federal awards included in the Schedule are presented as described in the Catalog of Federal Domestic Assistance.

3. RELATIONSHIP TO THE FINANCIAL STATEMENT

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

4. INDIRECT COST RATE

The PRNG has elected not to use the ten percent of the minimum indirect cost rate allowed under the Uniform Guidance.

5. MATCHING COSTS

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule. During the year ended June 30, 2020, the PRNG performed allocation from state funds amounting to \$5,706,791.

6. CONTINGENCIES

The grant amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the PRNG. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

7. HIGH RISK GRANTEE DESIGNATION

The high-risk grantee classification to PRNG does not arise due to audit findings or weaknesses in their internal control structure or financial management capabilities. The high-risk designation is a result Commonwealth's fiscal crisis that indirectly affected the PRNG.

**INDEPENDENT AUDITOR'S 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**

**Puerto Rico National Guard
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 financial statement) of the National Guard of the Commonwealth of Puerto Rico (the "PRNG") for the year ended June 30, 2020, and the related notes to this financial statement, which collectively comprise the PRNG's financial statement, and have issued our report thereon dated July 21, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **2020-01** to be material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as item **2020-02** to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PRNG'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PRNG's Response Finding

The PRNG's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The PRNG's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 entity'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.

July 21, 2021

Crowe PR P&C



**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

**National Guard of the
Commonwealth of Puerto Rico
San Juan, Puerto Rico**

Report on Compliance for Each Major Federal Program

We have audited the National Guard of the Commonwealth of Puerto Rico's (the PRNG) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the PRNG's major federal programs for the year ended June 30, 2020. The PRNG's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the PRNG's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the PRNG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the PRNG's compliance.

Opinion on Each Major Federal Programs

In our opinion, the PRNG 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2020-03**, **2020-04** and **2020-05**. Our opinion on each major federal program is not modified with respect to these matters.

The PRNG's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The PRNG's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2020-03** to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2020-04** and **2020-05** to be significant deficiencies.

The PRNG's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The PRNG's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

July 21, 2021

Crowe PR PSC



NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiency identified that is not considered to be material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal awards

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiencies(s) identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs

<i>Name of Federal Program or Cluster:</i>	<i>CFDA Number:</i>
National Guard Military Operations and Maintenance (O&M) Projects	12.401

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 820,617
Auditee qualified as a low-risk auditee?	No

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS SECTION

Finding Number: 2020-01 **Procurement**
Finding Type: **Material Weakness**
Condition

The auditors were unable to ascertain that the PRNG complied with the procurement requirements in nine instances out of forty one instances of non-payroll examined for federal programs and four out of twenty-six examined for state programs, because the contract file was not available for our review. The only information readily available for our review was the cost of each service acquired.

Questioned Costs

Refer to finding **2020-03** in Section III - Federal Award Findings and Questioned Costs for detailed information on this finding.

Finding Number: 2020-02 **Compensation for services**
Finding Type: **Significant Deficiency in Internal Control**

Condition

The auditors noted in twenty-two instances from twenty-five paid with federal funds and fifteen instances from twenty-five paid with state funds the timesheets were not approved by the supervisor. Payroll expenses must be supported by a system of internal control that provides reasonable assurance that payroll charges are accurate, allowable, and charged to the appropriate state and federal program.

Refer to finding **2020-05** in Section III - Federal Award Findings and Questioned Costs for detailed information on this finding.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

Finding Number: 2020-03	Procurement Standards
Compliance Requirement:	Procurement, Suspension and Debarment
Finding Type:	Noncompliance and Material Weakness
Federal Agency:	Department of Defense
Federal Programs:	
CFDA 12.401	National Guard Military Operations and Maintenance (O&M) Projects State Program

Condition

The auditors were unable to ascertain that the PRNG complied with the procurement requirements in nine instances out of forty-one in non-payroll expenditures tested for federal programs and four out of twenty-six examined for state programs, because the contract file was not available for our review. The procurement files are under custody of another governmental agency that performs the procurement process on behalf of the PRNG, as required by the General Services Administration Act 73 for the Centralization of Procurement of the Government of Puerto Rico of 2019. The only information readily available for our review was the cost of each service acquired.

A similar finding was reported last year as 2019-001.

Criteria

§ 2CFR 200.318 (i) - The non-federal entity must maintain records sufficient to detail the history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of type, selection or rejection, and the basis for the contract price.

Cause

The PRNG is an agency of the Commonwealth of PR and the procurement process for the acquisition of certain construction work and for the supply of products, for several dependencies of the Commonwealth, has been delegated to Administration of General Services ("ASG"). The auditor requested access to the contract file to verify the existence and ascertain if the appropriate cost analysis was performed in connection with procurement actions, including contract modification and the analysis performed that supports the procurement standards but the contract and procurement information was not available for our review, because it is under control and custody of ASG. On its website, however, ASG, published the contractual cost for all bids awarded by them.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number: 2020-03 Procurement Standards (Continued)

Effect

The auditors were unable to determine compliance with the procurement requirements, and the pervasiveness of this matter could not be determined.

Questioned Costs

Unable to determine because the contract file was not provided.

Recommendations

The PRNG must request the bidding information to ASG when the purchase or services have been completed in order to obtain the information required and improve its controls to comply with procurement standards as mentioned above.

Management Response and Corrective Action Plan

Refer to unaudited corrective action plan attached with the FY 2020 auditor's report as required by 2 CFR 200.51(C).

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number: 2020-04	Property and Equipment Safeguarding and Reconciliation
Procedures	
Compliance Requirement:	Equipment/ Real Property
Finding Type:	Noncompliance and Significant Deficiency in Internal Control
Federal Agency:	Department of Defense
Federal Programs:	CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Condition

During the year ended June 30, 2020, the PRNG physically inspected and counted all property and equipment acquired with federal programs, as required by federal regulations. However, the PRNG did not reconcile the physical inventory report to the property and equipment records. Therefore, the auditors were unable to determine the completeness and accuracy of the report.

In another instance we selected a sample of thirty equipment items acquired under Federal awards during the fiscal year 19-20 to ascertain the existence of equipment and that the related property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, and physically inspected the equipment noting the following:

- Two equipment items selected could not be examined because they were not found in the location as stated in the inventory listing report.
- The description of one equipment selected for testing did not match with the description in the inventory listing report.

Criteria

2 CFR § 200.313 (d) - Equipment - A sound system of internal control and safeguarding of assets is essential to ensure that all property and equipment is adequately safeguarded, and periodic physical inventories agree to the PRNG's financial records.

Section 1001 of the Master Cooperative Agreement states (a) Equipment purchased by the Grantee under the term of the agreement become the property of the state and will be managed, used, and disposed of in accordance with 2 CFR 200.313, and Chapter 8, NGR 5-1. (B) Equipment purchased by the federal government, including equipment acquired specifically for a National Guard Cooperative Agreement, vest in the Federal Government. This equipment shall be managed, used, and accounted for as provided in 2 CFR 200.313 and NGR5-1, Chapter 8

Cause

Effective safeguarding controls were not in place to ensure the effective safeguarding of all acquired property during the year.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number: 2020-04 **Property and Equipment Safeguarding and Reconciliation Procedures
(Continued)**

Effect

Failure to implement effective safeguarding of acquired property could result in theft, loss and misuse of the PRNG's assets.

Questioned Costs

\$18,989

Recommendations

The auditor recommend that the PRNG strengthen its safeguarding controls regarding property and equipment acquired to prevent theft, loss, and misuse.

Management Response and Corrective Action Plan

Refer to unaudited corrective action plan attached with the FY 2020 auditor's report as required by 2 CFR 200.51(C).

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

Finding Number: 2020-05	Compensation for services
Finding Type:	Noncompliance and Significant Deficiency in Internal Control
Compliance Requirement:	Allowable Cost/Cost Principles
Federal Agency:	Department of Defense
Federal Programs:	CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Condition

The auditors noted in twenty-two instances from twenty-five paid with federal funds and fifteen instances from twenty-five paid with state funds the timesheets were not approved by the supervisor. Payroll expenses must be supported by a system of internal control that provides reasonable assurance that payroll charges are accurate, allowable, and charged to the appropriate state and federal program.

Criteria

§ 200.303 established the criteria for entities to maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

§ 200.430 states that compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- Allowable activities.

Section 4.1 of the "Procedimiento para el Registro de Asistencia y Acumulación de Licencias" stated that the users of each area, on Mondays of each week, will approve the attendance of the employees in the system, thus certifying that the information on the attendance is correct.

Cause

The PRNG did not required staff to follow policies and procedures related to attendance as stated in section 4.1 of the manual as mentioned above.

Effect

Payroll expenditures may result in improper payments, potential future questioned costs and disallowances.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

Finding Number: 2020-05	Compensation for services
Finding Type:	Noncompliance and Significant Deficiency in Internal Control
Compliance Requirement:	Allowable Cost/Cost Principles
Federal Agency:	Department of Defense
Federal Programs:	CFDA 12.401 National Guard Military Operations and Maintenance (O&M) Projects

Questioned Costs

None

Recommendations

The auditors recommend that management to ensure that program personnel are familiar with all grant requirements, including the requirements in OMB Circular A-87 (Compensation for services). Management should develop procedures to ensure payroll expenditures charged to federal awards are adequately supported. In addition, Management should promptly assign the payroll officer duties to other employees while recruitment for this position takes place.

Management Response and Corrective Action Plan

Refer to unaudited corrective action plan attached with the FY 2020 auditor's report as required by 2 CFR 200.51(C).

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

SECTION IV - PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

Finding Number: 2019-01	Procurement Standards
Compliance Requirement:	Procurement, Suspension and Debarment
Finding Type:	Noncompliance and Significant Deficiency in Internal Control
Federal Agency:	Department of Defense
Federal Programs:	
CFDA 12.401	National Guard Military Operations and Maintenance (O&M) Projects
CFDA 12.402	National Guard Challenge Program

Condition

The auditors were unable to ascertain that the PRGN complied with the procurement requirements in one construction contract to perform permanent work and roof repair services to multiple facilities of PRNG because the contract file was not available for our review. The only information readily available was the cost of each service acquired.

Status

This is a repeat finding. Refer to finding 2020-02.

Corrective Action Plan

Single Audit 2020

INDEPENDENT AUDITOR'S REPORT AND STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

Date CAP due to Compliance: YEAR ENDED JUNE 30, 2020

Following you will find the action plan to correct the findings and improve processes on Puerto Rico National Guard Single Audit Fiscal Year Ended 2020:

Facility/Dept/Clinic	Main Contact	Compliance Contact
Puerto Rico National Guard	Silvia M. Aponte Arroyo	Silvia M. Aponte Arroyo

Findings requiring correction	Recomendation	Corrective Action Items (<i>education, process improvement/resolution, etc</i>)	Status Expected Completion Date	Contact person Person Responsible
Finding Number: 2020-01 Procurement Material Weakness	Refer to finding 2020-03	Refer to finding 2020-03	Refer to finding 2020-03	General Services Director Noris M. Rodriguez Suris
Finding Number: 2020-02 Compensation for services. Significant Deficiency in Internal Control	Refer to finding 2020-05	Refer to finding 2020-05	Refer to finding 2020-05	Human Resuorces Director Yessenia Ortega

Corrective Action Plan

<p>Finding Number: 2020-03 Procurement Standards</p> <p>Material Weakness</p>	<p>The PRNG must request the bidding information to ASG when the purchase or services have been completed in order to obtain the information required and improve its controls to comply with procurement standards as mentioned above.</p>	<ul style="list-style-type: none"> ➤ Ensure Purchasing Agents and Contract Specialist follow procurement policies and procedures. ➤ Management will request contracts from ASG in order to maintain records sufficient to detail the history of procurement to include the rationale for the method of procurement, selection of contract type, contractor selection and the basis for contract price. ➤ Discuss with Purchase Agents the importance of requesting documentation (contracts) once approve, follow up on them, so they can be returned in a timely manner. ➤ The importance of all requisitions, contracts and the need to be scanned accordingly so in the event they are requested we are able to have on our files and maintain for ten (10) years as required by DOD 7000, 14-R under the files of General Services. ➤ All biddings that are submitted by General Services Administration (ASG) needs to be requested in a timely manner and discussed with their respective counter parts in (ASG) obtaining documentation from (ASG) to have on file and management will ensure that bidding information is within the regulations of the state procurement procedure. 	<p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>	<p>General Services Director</p> <p>Noris M. Rodriguez Suris</p>
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Corrective Action Plan

		<ul style="list-style-type: none"> ➤ Checklist will be provided to all Purchase Agents to follow guidelines in purchasing and contracts in accordance with CFR 200 Code of Federal Regulation and Regulation 9230 by Law 73-2019 for the Centralization of Procurement of the Government of Puerto Rico. ➤ Request training in Procurement at State and Federal level to maintain and be in compliance with procurement standards. 	<p>In process to be completed by October 31, 2021</p> <p>In process to be completed by October 31, 2021</p>	
<p>Finding Number: 2020-04 Property and Equipment Safeguarding and Reconciliation</p> <p>Noncompliance and Significant Deficiency in Internal Control</p>	<p>The auditor recommend that the PRNG strengthen its safeguarding controls regarding property and equipment acquired to prevent theft, loss, and misuse.</p>	<ul style="list-style-type: none"> ➤ Equipment will be managed, used and disposed of in accordance with 2 CFR 200 and NGR 5-1. ➤ Property will be examined and properly placed in location. For the equipment not available, ensure that the custodian reports to the Property Manager to document entry of equipment record. ➤ Property Manager will reconcile the physical inventory report to the property and equipment records. ➤ PRNG will ensure effective safeguarding controls in accordance with state and federal regulations in order to prevent, loss, theft and misuse of equipment. 	<p>In process to be completed by October 31, 2021</p> <p>In process to be completed by October 31, 2021</p> <p>In process to be completed by October 31, 2021</p> <p>In process to be completed by October 31, 2021</p>	<p>General Services Director</p> <p>Noris M. Rodriguez Suris</p>

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		<ul style="list-style-type: none"> ➤ Agency is currently requesting to fill the position of Principal Manager of Property Equipment. ➤ Request training from Administration of General Services (ASG) Principal Agency of Procurement at State Level. 	<p>Completed, Hired on July 1, 2021</p> <p>In process to be completed by October 31, 2021</p>	
<p>Finding Number: 2020-05</p> <p>Compensation for services Noncompliance and Significant Deficiency in Internal Control</p>	<p>The auditors recommend that management to ensure that program personnel are familiar with all grant requirements, including the requirements in OMB Circular A-87 (Compensation for services). Management should develop procedures to ensure payroll expenditures charged to federal awards are adequately supported. In addition, Management should promptly assign the payroll officer duties to other employees while recruitment for this position takes place.</p>	<ul style="list-style-type: none"> ➤ The payroll area was affected by the turnover of payroll officials during the audited period. This will be addressed with the appointment of a new payroll official for this fiscal year. The new hire will be trained on the good practices and government payroll systems to ensure the proper allocation of expenses. We are currently in the recruitment process, and it should be completed by August 20, 2021. ➤ Human Resources Office will ensure that payroll expenses and charges are accurate, allowable, and charged to the appropriate state and federal Program. ➤ We will ensure that program personnel are familiar with all grant requirements. The time and effort records will be verified to ensure accuracy and compliance following the PRNG policies and procedures related to attendance as stated in section 4.1 of the Agency manual. "Procedimiento para el Registro de Asistencia y Acumulación de 	<p>In process to be completed by August 20, 2021</p> <p>Completed Process Coordinator contracted since March 12, 2021</p> <p>In process to be completed by October 31, 2021</p>	<p>Human Resources Director</p> <p>Yessenia Ortega</p>

Corrective Action Plan

		<p>Licencias"</p> <ul style="list-style-type: none"> ➤ The Human Resources Office also contracted a Process Coordinator on March 12, 2021 to ensure the payroll process is accurate with monthly reports and data corroboration. This Professional Services personnel has proven to be effective finding discrepancies and addressing the correction of any deficiency. ➤ Currently the timesheets supervisor approval is required by the Human Resources personnel. The Licenses Official is not allowed to do any changes in the system if the timesheet is not signed/approved by the employee and the supervisor. The Human Resources office established a deadline every Monday per pay period in which the supervisors must approve employee timecards. The Licenses Official is ensuring the compliance before making any changes into the Kronos system if needed. We will schedule retraining in Kronos System for all the Supervisors to be completed before the end of current year. 	<p>Completed March 12, 2021</p> <p>Completed March 12, 2021</p>	
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Date sent to Compliance: Tuesday July 20, 2021 by Silvia M. Aponte Arroyo