

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
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, 2022

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

YEAR ENDED JUNE 30, 2022

TABLE OF CONTENT

PAGE

PART I - FINANCIAL SECTION

Independent Auditor's Report	1-3
Statement of Cash Receipts and Cash Disbursements - Governmental fund	4
Notes to Statement of Cash Receipts and Cash Disbursements - Governmental fund	5-14

PART II - SINGLE AUDIT SECTION

Schedule of Expenditures of Federal Awards	15
Notes to the Schedule of Expenditures of Federal Awards	16
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 <i>Government Auditing Standards</i>	17-18
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance Required by Uniform Guidance	19-21
Schedule of Findings and Questioned Costs	22-25
Summary Schedule of Prior Audits' Findings and Questioned Costs	26-28
Corrective Action Plan	29-32

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

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

Opinion

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements - Governmental Funds ("the financial statement") for the **National Guard of the Commonwealth of Puerto Rico (the "PRNG")** for the fiscal year ended June 30, 2022, and the related notes to the financial statement.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of PRNG's governmental funds, for the fiscal year ended June 30, 2022, in conformity with the basis of accounting described in Note 1.

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 PRNG 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

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The 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.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1, 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 control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

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 PRNG'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.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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* 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 Standard's* 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 PRNG' 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, and
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PRNG' 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The Schedule of Expenditures of Federal Awards and related notes, on pages 15 to 16, as required by "Title 2 U.S. Code of Federal Regulations (CFR) 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. Such 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 the basis of accounting as described in Note 1. In our opinion, the information 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 18, 2023 on our consideration of PRNG' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PRNG' 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 United States Department of Defense and is not intended to be and should not be used by anyone other than these specified parties.

March 18, 2023

Crowe PR PC



NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

YEAR ENDED JUNE 30, 2022

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
Legislative appropriations	\$ 19,351,574	\$ -	\$ 5,307,000	\$ 24,658,574
Federal grants and contributions	<u>-</u>	<u>55,103,592</u>	<u>-</u>	<u>55,103,592</u>
Total cash receipts	<u>19,351,574</u>	<u>55,103,592</u>	<u>5,307,000</u>	<u>79,762,166</u>
Cash Disbursements:				
Payroll and related expenses	3,256,368	4,919,011	836,034	9,011,413
Pay-as-you-go plan contribution	7,235,000	-	-	7,235,000
Facilities and payments for mobilization services	1,956,839	4,270,266	7,128,930	13,356,035
State matching fund allocation	5,086,280	-	3,177,939	8,264,219
Material and supplies	25,736	-	-	25,736
Transportation expenses	29,863	-	-	29,863
Equipment purchased	-	-	-	-
Purchased services	1,095,949	-	-	1,095,949
Other operating expenses	70,461	-	-	70,461
Security and maintenance of military facilities	2,730,959	19,589,193	-	22,320,152
Emergency protective measures	1,669,815	5,655,177	-	7,324,992
Military training to non-enlisted youths	<u>-</u>	<u>2,632,357</u>	<u>-</u>	<u>2,632,357</u>
Total cash disbursements	<u>23,157,270</u>	<u>37,066,004</u>	<u>11,142,903</u>	<u>71,366,177</u>
Excess (deficiency) of cash receipts over cash disbursements	<u><u>\$ (3,805,696)</u></u>	<u><u>\$ 18,037,588</u></u>	<u><u>\$ (5,835,903)</u></u>	<u><u>\$ 8,395,989</u></u>

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2022

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Guard of the Commonwealth of Puerto Rico ("PRNG") 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 forty-eight armories and is present in thirty communities. The PRNG, like the National Guards in all fifty 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 - Governmental Funds 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 1996, P.L. 104-156, and for the information to the federal awarding agencies, pass-through entities, regulators, management, and those charged with the governance and is not intended to be and should not be used by anyone other than these specified parties.

Financial Statement - Measurement Focus and Basis of Accounting

The accounts of PRNG are organized on the basis of three fund types: state funds and federal funds, which are responsible for the coordination, receipt and management of funds. PRNG maintains appropriations for several individual state and federal funds within each fund type. As more fully explained below, each fund is accounted for with a set of accounts which include only cash receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. Federal funds reflect the federal financial assistance managed by PRNG from programs funded by the Federal Government and are the funds through which most functions are financed. State funds are received as part of a cash matching fund from another administrative component of the Commonwealth of Puerto Rico.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

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

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

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.

PRNG' accompanying 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. PRNG follows accounting recordkeeping requirements imposed by the Puerto Rico Treasury Department system called "PRIFAS" (Puerto Rico Integrated Financial Accounting System) for Centralized Governmental Agencies and Departments and also following the requirements of Law #230 of July 23, 1974, as amended, known as "Accounting Law of the Government of Puerto Rico".

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 2022. During the year ended June 30, 2022, the PRNG changed the method to report cash receipts to include funds released by the grantors and collected by the Commonwealth but still pending the transfer to the PRNG, which depicts a more realistic presentation.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets, long-term debt nor accrued compensated absences are recorded in PRNG' financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds upon cash payment.

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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2022

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

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, Federal Emergency Management Agency (FEMA) and Department of the Treasury to support the operation and maintenance of the National Guard facilities.

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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

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

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 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 years, 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 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

On April 29, 2017, the Governor signed into law Act No. 26 of 2017 "Law for the Compliance with the Fiscal Plan," which, among other things, changed the vacation and sick leave accrual formula for all government employees. Through the Act, it was established that as of May 1, 2017, all public employees will have the right to accumulate vacation leave at the rate of one and one-fourth days for each month of service. For sick leave, the 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 are eligible to accrue up to 90 days for sick leave. In addition, the payment of sick leave was eliminated when the employee resigns or at the time of separation. New employees accumulate vacation leave retroactively after the first 3 months of employment.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2022

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

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, 2022, no funds for emergency support were advanced to PRNG 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 of cash receipts over cash disbursements for the year ended June 30, 2022 by approximately \$18 million in the special revenue fund is attributable mainly to reimbursement of emergency support packages for the continuance of the support activities for the COVID-19 and earthquake events that were paid with governmental funds during the prior fiscal years as required by the joint resolution No. 74 of October 6, 2020. The excess of cash disbursements over cash receipts for the year ended June 30, 2022 by approximately \$5.8 million in the other governmental funds is attributable mainly to reimbursement of advance received during fiscal year 20-21 to Puerto Rico Treasury Department of emergency support packages under revolving fund for FEMA Recovery Advances and Administrative Expense Eligible for Federal Reimbursement Joint Resolution as required by the joint resolution No. 85 of November 18, 2020.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

2. LEASE COMMITMENTS

Effective September 9, 2020, the PRNG rented office space of 18,012 square feet at Tabonuco Street, Guaynabo, Puerto Rico for a period of five year according to the following schedule during 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

The rent expense disbursed amounted to approximately \$669,000 for the year ended June 30, 2022. Future minimum rental payments, under existing contracts as of June 30, 2022, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 602,459
2024	613,634
2025	620,829
2026	<u>138,693</u>
	<u>\$ 1,975,615</u>

3. RETIREMENT PLAN

Before July 1, 2017, the Authority was a participating employer in the retirement plans administered by the Employees' Retirement System of the Commonwealth of Puerto Rico (ERS). However, on September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality under PROMESA. On May 21, 2017, the Oversight Board filed a petition for relief under PROMESA Title III for ERS in the United States District Court for the District of Puerto Rico, commencing a Title III case for ERS. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth's Title III cases. On January 18, 2022, the Title III Court confirmed the Commonwealth Plan of Adjustment, which includes the liquidation of the ERS. The Commonwealth Plan of Adjustment became effective on March 15, 2022.

Under the Commonwealth Plan of Adjustment and Commonwealth Confirmation Order, a Pension Reserve Trust was created to fund future PRGERS pension liabilities with an initial funding contribution from the Commonwealth of \$5 million on the Commonwealth Effective Date to fund the initial administrative costs and expenses of the Pension Reserve Board. Additional annual Commonwealth contributions will also be made to the Pension Reserve Trust in amounts to be determined each fiscal year in accordance with the terms of the Commonwealth Plan of Adjustment. The Commonwealth Plan of Adjustment and Commonwealth Confirmation Order also prevent the Commonwealth from implementing existing legislation or enacting new legislation within 10 years of the Commonwealth Effective Date that would create or increase any defined benefit pension payment or obligation to current or future retirees without the Title III Court's prior approval.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

3. RETIREMENT PLAN (CONTINUED)

PayGo Pension Reform

On June 27, 2017, the Puerto Rico Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “pay-as-you-go” (PayGo) system, in which the ERS and the Commonwealth’s other retirement systems stopped receiving contributions from employers or plan participants and are no longer managing contributions on behalf of participants. Since fiscal year 2018, employers’ contributions, contributions ordered by special laws, and the additional uniform contribution were all eliminated.

On August 23, 2017, the Governor signed into law the Act No. 106 of 2017, known as the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants* (Act 106-2017), which provides the legal framework for the Commonwealth to implement the PayGo system effective as of July 1, 2017. Under the PayGo system, the Commonwealth’s General Fund makes direct pension payments to the pensioners and then gets reimbursed for those payments by the applicable participating employers, including the Authority. The Commonwealth allocation percentages are based on the ratio of each participating entity’s actual benefit payments relative to the total aggregate benefit payments made by all participating entities for the year ending on the measurement date. Approximately \$2 billion was allocated for these purposes in each of the Commonwealth’s budgets for fiscal year 2022. The Commonwealth Plan of Adjustment preserves all accrued pension benefits for current retirees and employees at the ERS.

Act 106-2017, among other things, amended Act No. 447 with respect to the ERS’s governance, funding, and benefits for active members of the actual program and new hired members. Under Act 106-2017, the ERS’s Board of Trustees was eliminated, and a newly retirement board was created (the Retirement Board), which is currently responsible for governing all Commonwealth Retirement Systems.

Act 106-2017 terminated the previously existing pension programs for ERS participants as of June 30, 2017, and created a new defined contribution plan (PRGERS) for existing active members and new employees hired on or after July 1, 2017. This plan is similar to a 401(k) and is managed by a private entity. Future benefits will not be paid by the ERS. Under the New Defined Contribution Plan, members of the prior programs and new government 22, 2020, the accumulated balance on the accounts of the prior pension programs were transferred to the individual member accounts in the PRGERS. Act 106-2017 also ordered a suspension of the ERS’ loan programs and ordered a merger of the administrative structures of the Commonwealth’s retirement systems. At the Retirement Board’s discretion, the administration of benefits under the new Defined Contribution Plan may be managed by a third-party service provider. In addition, Act 106-2017 repealed the Voluntary Early Retirement Law, Act No. 211 of 2015, while creating incentives, opportunities, and retraining program for public workers.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

3. RETIREMENT PLAN (CONTINUED)

Plan Description Prior to July 1, 2017

This summary of pension plan provisions is intended to describe the essential features of the plan before the enactment of Act 106-2017. It should be noted that all eligibility requirements and benefit amounts shall be determined in strict accordance with the applicable law and regulations, and these benefits were not changed or amended with the enactment of Act 106-2017.

For employees who became ERS members prior to July 1, 2013, ERS operated under the following three benefit structures:

- Act No. 447 of May 15, 1951 (Act No. 447), effective on January 1, 1952, for members hired up to March 31, 1990;
- Act No. 1 of February 16, 1990 (Act No. 1), for members hired on or after April 1, 1990, and ending on or before December 31, 1999;
- Act No. 305 of September 24, 1999, (Act No. 305), which amended Act No. 447 and Act No. 1, for members hired from January 1, 2000, up to June 3, 2013.

Employees under Act No. 447 and Act No. 1 were participants in a cost-sharing multiple employers defined benefit plan (the Defined Benefit Program). Act No. 305 members were participants under a pension program known as the System 2000 Program, a hybrid defined contribution plan. Under the System 2000 Program, benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance in the participant's account.

Thereafter, under Act No. 3 of 2013, effective July 1, 2013, the Commonwealth created a hybrid plan where the employee no longer accrued employee benefits, and upon retirement would receive an annuity from the accumulated defined benefits until that date, plus the employee contributions made thereafter, adjusted by investment yields and market fluctuations. Other charges were also made to the Plan. Upon the enactment of Act No. 3, the Commonwealth discontinued contributing a proportionate share on behalf of the employee, instead employer contributions were redirected to pay accrued pensions. Act No. 3 of 2013 (Act No. 3) amended the provisions of the different benefits structures under the ERS. Act No. 3 moved all participants (employees) under the Defined Benefit Program and System 2000 Program to a new defined contribution hybrid plan (the Contributory Hybrid Program). All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. Act No. 3 benefits were terminated with the enactment of Act. No. 106-2017.

Contributions

During the year ended June 30, 2022, the Commonwealth's payments to PRNG pensioners amounted to \$6,632,172 required through the system PayGo Charge. During the same fiscal year, the PRNG withheld \$549,134 from employee contributions to a defined contribution benefit plan, for which PRNG does not provide a matching contribution.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2022

4. COMMITMENTS AND CONTINGENCIES

Litigation - The PRNG is a 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 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. Nevertheless, PRNG management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, if any, to be immaterial.

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 Office of Inspector General has issued several reports on audits over the operations and management of the PRNG, some of which involve federal programs.

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.

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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2022

5. REORGANIZATION OF THE COMMONWEALTH OF PUERTO RICO

On May 3, 2017, the Puerto Rico Fiscal Oversight and Management Board (the PRFOMB) , 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 January 18, 2022, the Title III Court entered its findings of fact and conclusions of law in connection with the Commonwealth Plan of Adjustment (the Findings of Fact) and an order confirming the Commonwealth Plan of Adjustment (the Commonwealth Confirmation Order).

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. At which time, debt was significantly reduced, as well as payment terms, which are now tied mostly to an allocation of State Sales and Use Tax proceeds. However, even after being discharged from bankruptcy, the Commonwealth still faces significant economic challenges and budget constraints.

Under PROMESA, the Commonwealth is required to operate under a fiscal plan that among other, requires the implementation of an annual certified and balanced budget, that will be overseen for at least four additional years by the Fiscal Board.

6. SUBSEQUENT EVENTS

The PRNG has evaluated subsequent events through March 18, 2023, the date the financial statement was issued. The Company has determined that there are no events occurring in this period that require disclosure in or adjustment to the accompanying financial statement.

PART II - COMPLIANCE SECTION

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	<u>Assistance Listing Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. DEPARTMENT OF DEFENSE NATIONAL GUARD BUREAU				
Program Title:				
National Guard Military Operations and Maintenance (O&M) Projects	12.401	N/A	\$ 24,508,204	N/A
National Guard Youth Challenge Program	12.404	N/A	<u>2,632,357</u>	N/A
			<u>27,140,561</u>	
U.S. DEPARTMENT OF HOMELAND SECURITY Federal Emergency Management Agency (FEMA)				
Program Title:				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	N/A	<u>4,270,266</u>	N/A
U.S. DEPARTMENT OF TREASURY				
Coronavirus Relief Fund	21.019	N/A	<u>5,655,177</u>	N/A
			<u>\$ 37,066,004</u>	

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

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, 2022. 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

Expenditures included on the Schedule are reported on the cash basis of accounting. 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 - Governmental Funds. 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 financial statement 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 - Governmental Funds.

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, 2022, the PRNG performed matching allocations from state funds amounting to \$8,264,219.

6. EXTENSION OF SINGLE AUDIT SUBMISSION

Awarding agency, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as required under Subpart F of 2 CFR § 200.501 to six months beyond the normal due date. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520(a) and (2 CFR § 200.501). The awarding agency approved an extension for completion and submission of the report from its original due date from March 31, 2023 to May 30, 2023.

**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**

**National Guard of the
Commonwealth of Puerto Rico
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 - Governmental Funds (the financial statement) of the National Guard of the Commonwealth of Puerto Rico (the "PRNG") for the year ended June 30, 2022, and the related notes to this financial statement, which collectively comprise the PRNG's financial statement, and have issued our report thereon dated March 18, 2023.

Report on 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.

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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-01.

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.

Report on Other Legal and Regulatory Requirements

This report is intended solely for the information and use of management, others within PRNG and the United States Department of Defense and is not intended to be and should not be used by anyone other than these specified parties.

March 18, 2023

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, 2022. The PRNG's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Opinion on Each Major Federal Program

In our opinion, National Guard of the Commonwealth of Puerto Rico complied, in all material respects, with the 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, 2022.

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 *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the National Guard of the Commonwealth of Puerto Rico and to meet our other ethical responsibilities, in accordance with 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 National Guard of the Commonwealth of Puerto Rico's compliance with the compliance requirements referred to above.

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, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to PRNG's federal programs.

Auditor's 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 PRNG'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 PRNG'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 PRNG'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 PRNG'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 PRNG'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.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-02. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on PRNG's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. PRNG's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 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. 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 *Auditor's 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 over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not 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.

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.

March 18, 2023

Crowe PR PSC



NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial statement

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified that is not considered to be material weakness?	No
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?	No
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>	Assistance Listing Number:
National Guard Military Operations and Maintenance (O&M) Projects	12.401
Coronavirus Relief Fund	21.019

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 1,111,980
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, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS SECTION

Finding Number: 2022-01 **Late submittal of required quarterly reports**
Finding Type: **Noncompliance with certain provision of laws and regulations**

Statement of Condition

Since fiscal year 2017-2018, the PRNG has not submitted the Declaration of the Chauffeurs' Insurance Contributions non the Unemployment & Disability Insurance Report, to the Department of Labor and Human Resources (PRDOL).

Criteria

Under Act No. 139 *Disability Benefits Act*, dated June 26, 1968, the employer is required to provide disability insurance benefits to its employees. This benefit provides compensation to workers for loss of salaries resulting from disability caused by sickness or accident not related with their employment. Both employer and employee share the Act burden evenly. Employees subject to the Chauffeur Social Security are not covered by this benefit.

Under Act No. 428, dated May 15, 1950, *Chauffeurs Social Security*, the employer is required to provide Chauffeur's Social Security to non-executive employees who are required or permitted to operate motor vehicles as a function of their duties. This benefit must be paid in lieu of the Puerto Rico Disability Insurance.

Quarterly returns are required to be filed no later than the fifteenth day after the last day of each calendar quarter.

Recommendations

The PRNG must determine if the PRDOL will enforce the collection of past due balances, in which case, a budget assignment will have to discussed with the Puerto Rico Budget's Office. Going forward, the PRNG should establish processes and controls to ascertain all payroll taxes and benefits are paid on time.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

Finding Number: 2022-02	Activities Allowed or Unallowed / Allowable Costs/Cost Principles Requirement / Improper Payment
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 and State Programs

Statement of Condition

From a sample of sixty disbursements tested, the audit team noticed one payment to a contractor that violated Clause 17 of the professional services contract. At the time the contract was signed, the contractor was an active employee of the Puerto Rico Fire Department, as disclosed in his resume, nevertheless the employee was contracted by PRNG to provide professional services as an Antiterrorism Program Coordinator. Upon subsequent questioning by the PRNG, the employee was able to obtain a retroactive license from his original employer. Nevertheless, under Clause 17, the signing of the contract without evidence of a license from his original employer results in null or void contract. Thereafter, the contractor agreed to return the amount collected from the Fire Department of \$2,882, and the PRNG cancelled the agreement, but after disbursing \$23,250 under the contract.

Criteria

The contract's Clause 17 of the contract states that: The contractor certifies that it is not a public official, does not received payment or compensation for services rendered under appointment of any governmental entity, agency, organism, public corporation or municipality. The contract shall be null or void if the contractor is an employee with any of the agencies or organism of the Government of Puerto Rico whereby, the contractor agrees to return any amount of money disbursed by the agency.

Cause

The contractor did not have an approved license at the time of rendering the professional services or a waiver approved by the employer.

Effect

Non-compliance with the allowable and cost principles requirements, and improper payment was made.

Questioned Costs

\$23,250

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022

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

Finding Number: 2022-02 Activities Allowed or Unallowed / Allowable Costs/Cost Principles Requirement (Continued)

Recommendations

Management should develop procedures and controls to ensure expenditures charged to federal awards are adequately supported and allowable under federal regulations.

Management Response and Corrective Action Plan

Refer to unaudited corrective action plan attached with the FY 2022 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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2022

SECTION IV - PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number: 2021-02	Procurement Standards Requirement
Compliance Requirement:	Procurement, Suspension and Debarment Requirement
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 and State Programs

The auditors were unable to ascertain that the PRNG complied with the procurement requirements regarding the purchase of goods and construction services in eleven instances out of sixty disbursements tested for federal programs and seven instances (three for construction services and four for purchases of goods) of fifty-eight disbursements examined for state programs. The procurement files were not available for our review because the procurement files are under the 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 Commonwealth of Puerto Rico of 2019. The only information readily available for our review was the invoice of each purchase or service acquired.

A similar finding was reported last year as 2020-01 and 2020-03.

Furthermore, out of the ten instances discussed above, the PRNG was able to locate partial information of six auctions. However, the audit team did not identify the following:

- In three instances, the auction date and the invitation to the auction;
- In two instances, the auction notice;
- In five instances, the signed offer.
- In four instances, evidence of attendance at the opening ceremony; record of collection of auction specifications and opening minutes;
- In six instances the eligibility certification and the evidence of acquisition of surety.

In other instances, from forty-five contracts selected to test non-federal entity contracts provisions for under federal awards, the auditor did not find the required clauses or provisions:

- In five instances, the record retention, access to records and the Use of US Flag Carriers and the Byrd Anti-Lobbying Amendment and the Contract Work Hours and Safety Standards Act;
- In four instances, the Clean Air Act, the Water Pollution Control Act; the Debarment and Suspension: Executive Orders 12549 and 12689; the Buy American Act; the Central Contractor Registration; the False or Fraudulent Statement of Claims, the Davis-Bacon Act; the Energy Policy and Conservation Act; the Seat Belt Use, the Executive Order 1304, the Equal Employment Opportunity, the No Obligation by Federal Government clause; the Privacy Act; and the Procurement of Recovered Materials clause;

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2022

SECTION IV - PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding Number: 2021-02 Procurement Standards Requirement (Continued)

- In eight instances, the Copeland Anti-kickback act 40 U.S.C. 3145;
- In one instance, the Compliance with Federal Law, Regulations and Executive Orders and the Drug Free Workplace Clauses;
- In four instances, the termination for Convenience;
- In eleven instances, the Contractual Legal Remedies;
- In ten instances, the Inter-agency services clause;
- In one instance, applicable to contracts over \$10,000, the termination clause and twelve instances the Contract Review Policy of the Financial Oversight Board.

Status

Corrected.

Finding Number: 2021-03	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

Statement of Condition

During the year ended June 30, 2021, the PRNG performed the physical inspection and counting procedures regarding property and equipment acquired with federal awards, as required by federal regulations but the physical inventory has not been reconciled with the system used to maintain control of the equipment's under custody of the PRNG.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SUMMARY SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION IV - PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

Finding Number: 2021-03 **Property and Equipment Safeguarding and Reconciliation Procedures (Continued)**

We selected a sample of twenty-five equipment acquired with federal awards to ascertain that the property records contain the required information as required by federal regulations regarding to 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:

- Five units were not properly tagged.
- One unit examined was tagged with a numeration that did not match the tag number included in the property record.
- Four units damaged or in the process of decommission are still included in the property record.

A similar finding was reported last year as 2020-04

Status

Corrected

Finding Number: 2021-04 **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**

Statements of Condition

The auditors noted in twenty-three instances from sixty timesheets tested 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.

A similar finding was reported last year as 2020-05.

Status

Corrected.

Corrective Action Plan

Single Audit 2022

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

Date CAP due to Compliance: YEAR ENDED JUNE 30, 2022

Following you will find the action plan to correct the findings and improve processes on Puerto Rico National Guard Single Audit Fiscal Year Ended 2022:

Facility/Dept/Clinic	Main Contact	Compliance Contact
Puerto Rico National Guard	Angelo Aviles Cortijo	Angelo Aviles Cortijo

Findings requiring correction	Recommendation	Corrective Action Items <i>(education, process improvement/resolution, etc)</i>	Status Expected Completion Date	Contact Person/ Person Responsible
<p>Finding Number: 2022--01 Late Submittal of required quarterly reports</p> <p>Finding Type: Noncompliance with certain provision of laws and regulations</p> <p>Since Fiscal Year 2017-2018 the PRNG has not submitted the Declaration of the Chauffeurs" Insurance Contributions Quarterly Insurance Tax Reports to the Department of Labor and Human Resources</p>	<p>The PRNG should meet with the PRDOL to address and handle past due returns and complete PRDOL declarations on time</p>	<p>On April 11,2023 PRNG meet with the PRDOL and discuss a corrective plan action to address and handle the required quarterly reports.</p> <p>On April 12,2023 the PRDOL certified to the PRNG compliance on the submission of all pending Quarterly Insurance Reports.</p>	<p>Completed April 12, 2023</p> <p>Attached PRDOL compliance Certification but it will be actualized and submitted before the end of this month.</p>	<p>Interim Human Resources Director</p> <p>Iván R. Lockward Albuquerque</p>

Date sent to Compliance: Friday May 12,2023 by Angelo Aviles Cortijo *Angelo Aviles Cortijo*



GOBIERNO DE PUERTO RICO

Departamento del Trabajo y
Recursos Humanos

Hon. Gabriel Maldonado González
SECRETARIO

CERTIFICACIÓN

Yo, LUZ V. ROMAN GARCIA, Operador(a) de Equipo de Entrada de Información del Programa de Seguro Social para Choferes y Otros Empleados del Departamento del Trabajo y Recursos Humanos CERTIFICO:

Que se ha realizado una búsqueda en los archivos de expedientes de la Sección de Determinación de Patronos y Cobros de Cuentas Atrasadas y de la misma surge que el patrono:

GUARDIA NACIONAL DE PUERTO RICO con el número de cuenta patronal 0790027728 tiene pago hasta el cuarto trimestre del 2022., tiene al descubierto las aportaciones patronales desde el cuarto trimestre del 2021 hasta el cuarto trimestre del 2022 en este Programa.

En testimonio de lo cual expido la presente CERTIFICACIÓN bajo mi firma y sello del Departamento del Trabajo y Recursos Humanos, en Hato Rey, Puerto Rico a los 12 días de abril del 2023.


LUZ V. ROMAN GARCIA

Operador(a) de Equipo de Entrada de Información



Programa de Seguro Social para Choferes y Otros Empleados

Corrective Action Plan

Single Audit 2022

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

Date CAP due to Compliance: YEAR ENDED JUNE 30, 2022

Following you will find the action plan to correct the findings and improve processes on Puerto Rico National Guard Single Audit Fiscal Year Ended 2022:

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

Findings requiring correction	Recommendation	Corrective Action Items <i>(education, process improvement/resolution, etc)</i>	Status Expected Completion Date	Contact Person / Person Responsible
Finding Number: 2022-02 Financial Statement Findings Section Noncompliance and Material Weakness	Refer to finding 2022-01 Contract 2022-000211	Refer to finding 2022-01		Finance Director & General Services Director Angelo Aviles Cortijo Noris M. Rodriguez Suris
Finding Number: 2022-01	The PRNG's management must ensure that all Contractors comply with subsection stated in	➤ For Fiscal Year 2022 in addition to Subsections 17 and 13. Contractors must fill out a Certification of	Completed	Finance Director

