

**NATIONAL GUARD OF THE
COMMONWEALTH OF PUERTO RICO**

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

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

YEAR ENDED JUNE 30, 2019

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

YEAR ENDED JUNE 30, 2019

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PART I - FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

**National Guard of the
Commonwealth of Puerto
Rico 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 **National Guard of the Commonwealth of Puerto Rico (the "PRNG")** which comprise Statement of Cash Receipts and Disbursements for the fiscal year ended June 30, 2019, and the related notes to 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 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.

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, 2019, 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 9 to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Considering that the PRNG is highly 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.

Other Matters

Supplementary information

Our audit was conducted for the purpose of forming opinions 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 12-13, 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 themselves, 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 13, 2020, 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 13, 2020



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NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
Legislative appropriations	\$ 9,553,568	\$ -	\$ 3,991,912	\$ 13,545,480
Insurance proceed	-	-	6,755,667	6,755,667
Federal grants and contribution	-	<u>52,493,198</u>	-	<u>52,493,198</u>
Total cash receipts	<u>9,553,568</u>	<u>52,493,198</u>	<u>10,747,579</u>	<u>72,794,345</u>
Cash Disbursements:				
Payroll and related expenses	4,867,120	-	-	4,867,120
Facilities and payments for services	1,142,364	-	-	1,142,364
State matching fund allocation	3,391,500	-	3,829,399	7,220,899
Material and supplies	75,850	-	-	75,850
Transportation expenses	6,141	-	-	6,141
Equipment purchased	13,118	-	-	13,118
Purchased services	25,597	-	-	25,597
Other operating expenses	31,878	-	-	31,878
Security and maintenance of military facilities	-	26,429,347	-	26,429,347
Emergency protective measurements	-	17,252,705	-	17,252,705
Military training to non-enlisted youths	-	<u>3,876,069</u>	-	<u>3,876,069</u>
Total cash disbursements	<u>9,553,568</u>	<u>47,558,121</u>	<u>3,829,399</u>	<u>67,696,755</u>
Excess of cash receipts over cash disbursements	<u>\$ -</u>	<u>\$ 4,935,077</u>	<u>\$ 6,918,180</u>	<u>\$ 11,853,257</u>

See accompanying notes to the Statement of Cash Receipt and Disbursements.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The National Guard of the Commonwealth of Puerto Rico (the "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 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

The PRNG is for financial reporting purposes 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 Department 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 have 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 (CONTINUED)
YEAR ENDED JUNE 30, 2019

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

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

This cash basis of accounting differs from GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) 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 2018-2019. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in 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 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. 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 following governmental fund types are used by the PRNG:

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 National Guard of Puerto Rico.

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 (CONTINUED)

YEAR ENDED JUNE 30, 2019

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 legislation previously approved.

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 Oversight 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 financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. The PRNG is not legally required to prepare the Budgetary Comparison Schedule.

On April 29, 2017, Act No. 26 establish 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 entered into the General Fund; to provide that those special funds created by Act 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

PRNG accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 8 of February 6, 2017, PRNG's employees are granted 24 days of vacation leave and 12 days of sick leave annually. New employees accrue, retroactively, after the first 3 months of employment. Vacation leave may be accumulated 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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2019

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

Reduction of Working Day

Act No. 8 of February 6, 2017 establishes that any employee will have the option of requesting a voluntary reduction of their working day by means of a prior agreement with their employer, for a reduction period equivalent to one day of work.

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, 2019, funds were not advanced to PRNG for this purpose.

Excess (Deficiency) Statement Line

The excess (deficiency) of cash receipts over (under) cash disbursements statement line represents the result on cash basis other than GAAP. Accordingly, amounts shown in this line is not comparable to an excess or deficiency over funds assigned and do not represent a deficit or surplus of the PRNG. The excess noted for the year ended June 30, 2019, is attributable mainly to insurance claim proceeds of \$6,755,667, net of adjuster's fees, related to property, casualty damages caused by the Hurricane María, which struck the island on September 20, 2017. This proceed will be used to comply with the matching requirement under FEMA program during the fiscal year 2019-2020.

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. Rent disbursements under such lease agreements for the fiscal years ended June 30, 2019, were \$8,771. As of the date of this financial statement was issued, the PRNG was negotiating various expired lease agreements, including some whose monthly payments have been withheld until the contract is renewed.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2019

2. LEASE COMMITMENTS (CONTINUED)

Future minimum rental payments, under existing contracts as of June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	\$ 16,036
2021	18,036
2022	18,030
2023	26,024
2024	30,024
Thereafter	70,058
	\$ 178,208

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.

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. FUND ADVANCES

During fiscal year 2018, the Treasury Department of Puerto Rico provided approximately \$21 million in temporary advances to the PRNG, for the timely settlement of FEMA reimbursable expenditures, as permitted by Act No. 21 of 1979. As FEMA reimbursed the covered expenditures to the PRNG, the funds were received by the Puerto Rico Treasury Department in settlement of said advances. The advances provided by the Puerto Rico Treasury Department and the subsequent reimbursement by FEMA, are not included in the accompanying Statement of Cash Receipts and Cash Disbursements. No additional temporary advances were provided by the Commonwealth during fiscal year 2019.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

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

YEAR ENDED JUNE 30, 2019

5. RETIREMENT PLAN

The PRNG's employees had historically participated in the Employees Retirement System (ERS) of the Commonwealth of Puerto Rico. For further information about pension benefits accumulated by active employees to the enactment of Act. No. 3 of 2013, which in substance eliminated pension contributions by the employer, refer to the latest audited financial statements of the ERS, as of June 30, 2016.

PayGo Pension Reform

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to the central government agencies, public corporations, and municipalities the new processes to adopt, effective July 1, 2017, a new "pay-as-you-go" (PayGo) mechanism for the Commonwealth Retirement System. With the start of fiscal year 2018, employers' contributions, contributions ordered by special Acts, and the additional uniform contribution were all eliminated. The ERS will determine and administer the payment amount per retiree that will be charged to each agency, public corporation, and municipality, including the PRNG.

In addition to the establishment of the PayGo mechanism, on August 23, 2017, the Governor signed into Act the *Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106)*, which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, similar to a 401(k) plan, that will be managed by a private entity. Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

Act No. 106, among other things, amended Act No. 12 of October 19, 1954 with respect to the ERS's governance, funding and benefits for active members of the actual program and new hired members. Under Act No. 106, the ERS's Board of Trustees was replaced with a new retirement board (the Retirement Board), which is responsible for governing all Commonwealth Retirement Systems.

Act No. 106 terminated the previously existing pension programs for ERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 will be enrolled in a new defined contributions program that will be selected by the Retirement Board. The accumulated balance on the accounts of the prior program will be transferred to the members account in the new defined contributions program. ERS's active members in the defined contributions program will retain their benefits as stated under Act 91 of March 29, 2003.

Contributions

The PRNG required contribution through the PayGo System during the year ended June 30, 2019, amounted to \$7,993,020.

6. TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the PRNG. 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.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

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

YEAR ENDED JUNE 30, 2019

6. TERMINATION BENEFITS (CONTINUED)

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. 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 PRNG during the fiscal year ended was available for disclosure.

7. 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 the appropriated 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, 2019, 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.

8. GOING CONCERN - COMMONWEALTH OF PUERTO RICO

On May 3, 2017, the Commonwealth of Puerto Rico and the Puerto Rico Oversight, Management, and Economic Stability Act, 48 USC sec. 2101 et seq. (PROMESA) filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United States history. After the commencement of the Commonwealth's Title III case, numerous motions and adversary proceedings have been filed both by and against the Commonwealth regarding creditor rights to Commonwealth assets.

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO

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

YEAR ENDED JUNE 30, 2019

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

On February 28, 2020, the Oversight Board filed an amended Joint Plan and Disclosure Statement. The Disclosure Statement and Joint Plan remain subject to Title III Court approval. Furthermore, due to the COVID-19 pandemic, the Oversight Board has informed about their intentions to revisit the Plan. Therefore, it is impracticable to determine the scope of the Joint Plan's changes, and the final Plan that the Title III Court will ultimately be confirmed.

The PRNG is highly dependent on the Commonwealth's appropriations to finance its operations and to match the federal awards received. It is impractical to determine how the final resolution of the Commonwealth's Title III case, will affect the PRNG's operations. This matter may be worsened by the worldwide pandemic, more fully disclosed in Note 9.

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 13, 2020, 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, except for the matter described below:

Effective for the fiscal year 2019-2020, vacation leave will increase from 15 to 30 days annually (2.5 hour per month) up to a maximum of sixty working days, and sick leave from 12 to 18 days annually (1.5 hour per month), prospectively.

On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public closings necessary to combat the effects of the coronavirus (COVID-19) and control the risk of contagion within Puerto Rico. This Executive Order required the implementation of a curfew and shutdown of non-essential commercial activity. Thereafter, the Governor has issued various other Executive Orders, relaxing certain restrictions. To assist in the efforts to control and mitigate the pandemic, the Governor activated the PRNG, under a Title 32 designation, that allows a governor to order guard members to report for operational homeland defense duties with the approval of the president or secretary of defense. Title 32 qualify Puerto Rico for 75% federal coverage of National Guard costs under FEMA's Public Assistance Program, which covers emergency protective measures. In addition, Puerto Rico can request a waiver of some of the 25% cost share, under certain circumstances. Additional funding for National Guard activities was part of HR 748, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which appropriated funds for the deployment of the National Guard for the next six months to support state and local response efforts.

Furthermore, on March 19, 2020, the OMB issued the memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, which provided administrative remedies for entities impacted by COVID-19. Among other remedies, provides for awarding agencies, 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 of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 - Audit Requirements, to six months beyond the normal due date.

PART II - COMPLIANCE SECTION

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/ Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
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	\$ 26,429,347
National Guard Youth Challenge Program	12.404	N/A	<u>3,876,069</u>
			<u>30,305,416</u>
U.S. DEPARTMENT OF HOMELAND SECURITY Federal Emergency Management Agency (FEMA)			
Program Title:			
Disaster Grants – Public Assistance	97.036	N/A	<u>17,252,705</u>
			<u>\$ 47,558,121</u>

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the National Guard of the Commonwealth of Puerto Rico (the PRNG) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of OMB Uniform Guidance, Audits of States, Local Governments, and Non-Profits Organizations. Because the Schedule presents only a selected portion of the operations of the PRNG, it is not intended to and does not purport to present the financial position, changes in net position, or cash flows of the PRNG.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used in the preparation of the schedule:

The PRNG reports expenditures reported presented in the Schedule following on the receipts and disbursements method of accounting. The information is drawn primarily from the PRNG's internal accounting records, which services 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.

State or local government redistributions of federal awards to the PRNG, known as "pass-through awards", should be treated by the PRNG as though they were received directly from the federal government. The Uniform Guidance requires the Schedule to include the name of the "pass-through entity" and the identifying number assigned by the "pass-through entity" for the federal awards received as a sub-recipient. Numbers identified as N/A are not applicable and numbers showed as N/A are not available.

3. RELATIONSHIP TO THE 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.

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.

**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 (the financial statement) of the National Guard of the Commonwealth of Puerto Rico (the "PRNG") for the year ended June 30, 2019, and the related notes to this financial statement, which collectively comprise the PRNG's financial statement, and have issued our report thereon dated July 13, 2020.

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 statements 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 may exist that have not been identified.

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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 13, 2020



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, 2019. 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, 2019.

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 item 2019-01. 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 PRMG'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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-01, that we consider 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 13, 2020



Crowe PR PA

NATIONAL GUARD OF THE COMMONWEALTH OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• 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)?	No

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
National Guard Challenge Program	12.402

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 1,426,744
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, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS SECTION

There are no significant deficiencies for the year ended June 30, 2019.

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

YEAR ENDED JUNE 30, 2019

SECTION III - MAJOR FEDERAL AWARD PROGRAM 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

As result of our compliance audit procedures, 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 amount (cost) of each service acquired.

Criteria

§ 2CFR 200.317 Procurements by states - When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. The state will comply with § 200.322 Procurement of recovered materials and ensure that every purchase order or other contract includes any clauses required by section § 200.326 Contract provisions.

§ 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 Service ("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 file was not available for our review, because it is under control and custody of ASG. In its WEB page, however, ASG, published the contractual cost for all bids awarded by them.

Effect

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

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

YEAR ENDED JUNE 30, 2019

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

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

Questioned Costs

Unable to determine because the contract file was not provided.

Recommendations

This issue will not continue into the ensuing fiscal year, because upon the enactment of Act 73, effective July 1, 2019, the ASG will be required to publish in its web page, all information relevant to the bid processes made on behalf of other government dependencies.

Views of Responsible Officials

In reference upon the Independent Auditors Report and Statement of Cash Receipts and Cash Disbursements, on 30 where the following was noted, there is no internal control based on a contract Trinity 2017 #-097C requested January 2020.

Mrs. Noris M. Rodríguez, the General Services Director would contend that upon receiving notification on this specific contract. Mrs. Rodríguez immediately contacted through e-mail requesting documentation to Mrs. Evelyn Mejias, Acquisition Director, from "Administración de Servicios Generales" (ASG) on 31 January in addition that the Mrs. Rodríguez went personally to request the file.

In response, Mrs. Mejias indicated to Mrs. Rodríguez contract file was at another location and needed to be solicited by them. Once received Mrs. Mejias should notify Mrs. Rodríguez to discuss it in detail.

Mrs. Rodríguez made all necessary efforts to obtain the file, through e-mails and again personally to their communicated to Mrs. Jacqueline Lozada, Assistant Manager of Acquisitions following up and providing the importance of such record. Basically, Mrs. Lozada got the same response.

The last communication was on February 21, 2020 once again through e-mail requesting the file and the urgency of such and explained once again that our agency was being audited, and no response was provided.

There is no further action to be taken, because it is expected to be corrected, effective July 1, 2019, without further action 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, 2019

SECTION IV - PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.