

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

**FINANCIAL STATEMENT**

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

**(WITH THE ADDITIONAL REPORTS REQUIRED BY  
THE GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE)**

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Certified Professional Accountants

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Puerto Rico Society of Certified Public Accountants  
Register in the Peer Review Program of the AICPA Since 1988

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**PART I**  
**FINANCIAL**

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*“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”*

## INDEPENDENT AUDITOR'S REPORT

**Major General (PR) Miguel A. Méndez**  
**Adjutant General**  
**Puerto Rico National Guard of the**  
**Commonwealth of Puerto Rico**  
**San Juan, Puerto Rico**

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying cash basis financial statement of the **Puerto Rico National Guard of the Commonwealth of Puerto Rico (PRNG)**, which comprise Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds for the fiscal year ended June 30, 2023, and the related notes to the financial statement, which collectively comprise the **PRNG's** basic financial statement as listed in the Table of Contents.

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

#### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement Section of our report. We are required to be independent of the **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 opinions.

#### *Emphasis of Matters*

#### *Basis of Accounting*

We draw attention to Note 2 of the financial statement that 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 opinions are not modified with respect to this matter.

**INDEPENDENT AUDITOR'S REPORT**  
**To Major General (PR) Miguel A. Méndez, Adjutant General**  
**Puerto Rico National Guard of the**  
**Commonwealth of Puerto Rico**  
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*The Puerto Rico National Guard of the Commonwealth of Puerto Rico – Only Basic Financial Statement*

As discussed in Note 1, the financial statement of the **PRNG** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **PRNG**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

**Responsibilities of Management for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with cash basis of accounting described in Note 2, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 as a whole are 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **PRNG's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.





## INDEPENDENT AUDITOR'S REPORT

To Major General (PR) Miguel A. Méndez, Adjutant General

Puerto Rico National Guard of the  
Commonwealth of Puerto Rico

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- Conclude whether, in our judgment, 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 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.

### **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 41-43, 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.

### **Report Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2024 on our consideration of the **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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **PRNG's** internal control over financial reporting and compliance.



CPA DIAZ-MARTINEZ, CSP  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico  
March 26, 2024

Stamp No. E539420 of the Puerto Rico Society of Certified  
Public Accountants were affixed to the original report.

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COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO NATIONAL GUARD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
 AND NET CHANGES – GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>	<u>Federal Grants Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>RECEIPTS:</b>				
Appropriations from the Commonwealth of Puerto Rico	\$ 32,651,057	\$ -	\$ 4,887,597	\$ 37,538,654
Federal Grants	<u>-</u>	<u>29,812,653</u>	<u>-</u>	<u>29,812,653</u>
<b>Total Receipts</b>	<u>32,651,057</u>	<u>29,812,653</u>	<u>4,887,597</u>	<u>67,351,307</u>
<b>DISBURSEMENTS:</b>				
ARNG Administrative Services Activities	17,207,955	1,371,320	1,392,456	19,971,731
ARNG Facilities Programs	-	18,264,533	2,486,787	20,751,320
ARNG Environmental Programs	-	239,453	-	239,453
ARNG Security Guard Activities	-	1,068,106	-	1,068,106
ARNG Electronic Security System Management	8,271,960	130,645	-	8,402,605
ARNG Command, Control, Communications, Computers	-	653,045	-	653,045
ARNG Training Support System Programs	-	191,996	-	191,996
ARNH Emergency Management Program Coordinator	-	447,942	-	447,942
ANG Facilities Operations and Maintenance	1,215,155	1,159,839	1,654,790	4,029,784
ANG Fire Protection	-	787,808	-	787,808
Army National Guard Distributed Learning Program	-	155,062	-	155,062
National Guard Youth Challenge Program	-	4,857,746	1,574,647	6,432,393
Department of Defense STARBASE Program	<u>-</u>	<u>430,254</u>	<u>-</u>	<u>430,254</u>
<b>Total Disbursements</b>	<u>26,695,070</u>	<u>29,757,749</u>	<u>7,108,680</u>	<u>63,561,499</u>
<b>EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS</b>	<u>\$ 5,955,987</u>	<u>\$ 54,904</u>	<u>\$ (2,221,083)</u>	<u>\$ 3,789,808</u>

The accompanying *Notes to Financial Statement* are an integral part of this Statement.

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## 1. FINANCIAL REPORTING ENTITY

### A. Organization

The Puerto Rico 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.

### B. 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 Treasury Department of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the PRNG by the Legislative Branch and Federal Agencies. The Puerto Rico Treasury Department also processes, 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 Disbursements, and Net Changes – Governmental Funds was obtained from 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 No. 230 of July 23, 1974, as amended, known as “Accounting Law of the Government of Puerto Rico”, is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the PRNG’s management, and those charged with the governance, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

### C. Going Concern Evaluation

On an annual basis, as required by Governmental Accounting Standards Board (“GASB”) No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, the PRNG performs an evaluation to determine whether there are conditions or events (known and reasonably knowable), considered in the aggregate, that raise substantial doubt about the PRNG’s ability to continue as a going concern within one year for the twelve (12) months beyond the financial statement date, including any currently known information that raise substantial doubt shortly thereafter. Management has concluded that there is no material uncertainty related to the PRNG’s ability to continue as a going concern through the date the financial statement was available to be issued.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Financial Statement – Measurement Focus and Basis of Accounting

The PRNG's accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds is prepared using 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.

Because of the unavailability of reference materials and guidance and to provide some consistency over the preparation of other comprehensive basis of accounting (OCBOA) financial statements for states and local government, the AICPA developed a practice aid title *Applying OCBOA in State and Local Governmental Financial Statements*.

This 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 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 2022-2023. No accrual is recognized.

Because the PRNG participates in a pooled cash arrangement as further discussed below, cash receipts from Commonwealth appropriations are considered received when the related disbursement is made. Cash receipts related to indirect costs and special accounts are recognized when cash is received. Disbursement is considered once the payment voucher is approved and authorized for payment by the Puerto Rico Treasury Department. The timing of cash receipts from the Federal Government may differ from the date federally funded payments are made. The PRNG draws amounts from the pooled cash account when Federal funds have not yet been received and the same is replenished once the Federal funds are received. All these factors in cash receipts recognition result in an excess of cash receipts over (under) disbursements at year-end.

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 the PRNG's financial statement. No accrued compensated absences are reported in the 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 the 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 the PRNG are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The PRNG reports the following major governmental funds:

- *General Fund* – The general fund is the main operating fund of the PRNG. It is used to account for all financial resources except those required to be accounted for separately.
- *Federal Grants Fund* – This fund is used to account for resources 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

- *Special Revenue Fund* – This fund is used to account for resources or funds that are deposited for specific purposes with applicable Acts. Matching funds for Federal Grants are accounted for in this fund. 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.

The major funds are presented in the following individual programs to account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- ARNG Administrative Services Activities/Appendix 1014 – Provides assistance in the performance of document management administrative services and assists in records management to include, receiving, storage, records holding area operations, cataloging, and retrieval.
- ARNG Facilities Programs/Appendix 1001 – Support includes leases, facilities operations, monitors military construction appropriations-funded projects, real property sustainment, restoration, modernization, operation and maintenance, minor construction, and demolition costs for facilities identified for the joint use of the state and federal government.
- ARNG Environmental Programs/Appendix 1002 – Ensures that the Puerto Rico Army National Guard is in compliance with applicable Department of Army (DA), National Guard Bureau (NGB), Army National Guard (ARNG), Department of Defense (DOD), federal, state, and local environmental regulations.
- ARNG Security Guard Activities/Appendix 1003 – Support Physical Security of facilities, provides personnel to control entry and egress to designated installations and facilities access control points as well as patrol/protect location perimeters and Mission Essential or Vulnerable Areas (MEVA) to detect/deter unauthorized access.
- ARNG Electronic Security System Management/Appendix 1004 – Supports electronic security maintenance and monitoring requirements.
- ARNG Command, Control, Communications, Computers/Appendix 1005 – Support Information Technologies Services of the Army National Guard command, control, communications, computers, and information management services within the state.
- ARNG Training Support System Programs/Appendix 1007 – Ensures that all Army training lands are available for sustained perpetual use by providing a comprehensive approach to land management, and is based on the integration of military mission, natural resources stewardship, and environmental compliance.
- ARNH Emergency Management Program Coordinator/Appendix 1011 – Supports Emergency Management Program Coordinator, response planning for all hazards/threat, emergency response planning, Emergency Management Working Group.
- ANG Facilities Operations and Maintenance/Appendix 1021 – Support includes leases, facilities operations, monitors military construction appropriations-funded projects, real property sustainment, restoration, modernization, operation and maintenance, minor construction, and demolition costs for facilities identified for the joint use of the state and federal government for the Air National Guard.

continue

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation**

- ANG Fire Protection/Appendix 1024 – Provide fire protection services with or without an assigned aircraft on a case-by-case basis approved by NGB/A7 in accordance with DODI 6055.06 and AFI 32-2001 requirements.
- Army National Guard Distributed Learning Program/Appendix 1040 - Provides multiple distributed learning methods and technologies to improve the readiness of soldiers and units through the flexible delivery of standardized individual and collective training at the point of need.
- National Guard Youth Challenge Program/Appendix 4001 - Provides military-based training, discipline, and structure, job readiness training, and alternative educational approaches through a military-based training model that is the foundation on which the NGYCP is built. It closely resembles structured and disciplined entry-level military training that teaches the participants the life-long non-cognitive skills necessary to become successful adults.
- Department of Defense STARBASE Program/Appendix 4002 - The program provides hands-on instruction in science, technology, engineering, and math (STEM) topics to fifth graders from disadvantaged schools. The goal is to motivate them to explore STEM opportunities as they continue their education.

***Excess (Deficiency) Financial 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 above. 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 disbursements over cash receipts for the year ended June 30, 2023 by approximately \$2.2 million in the Special Revenue Fund is attributable mainly to the timing of the nonfederal share of certain program costs from state funds appropriations.

***Notes to the Financial Statement***

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

**B. Stewardship, Compliance, and Accountability**

***Budgetary Information***

The PRNG's budget is integrated within the general budget of the Commonwealth. The budget is adopted in accordance with a statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Cash receipts are generally recognized when cash is received for federal financial assistance programs or other grants that are received from sources other than the Commonwealth. The PRNG is granted the right to draw against available funds of the Secretary of the Treasury as its means to incur expenditures under the General Fund. Therefore, the budget approved by the Commonwealth represents the spending limit allowed to the PRNG as it relates to funds appropriated by the Commonwealth.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Cash disbursements for budgetary expenditures are generally recorded when the related payment, purchase order or contract is recorded as an encumbrance. For payroll and related payments, the cash disbursement is recorded on the effective date of the payroll being processed.

Encumbrances lapse the year following the end of the fiscal year when the encumbrance was established, as established by Act No. 123 of August 17, 2001. Unencumbered appropriations lapse at fiscal year-end.

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

Under the statutory basis of accounting, the PRNG uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 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 Law Pub. L. 114-187, *Puerto Rico Oversight, Management and Economic Stability Act* (PROMESA).

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of the 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 time, upon request to, and approval by the Federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriate budget level. The PRNG is not legally required to prepare Budgetary Comparison Schedule.

### C. Compensated Absences

The 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. 26 of 2017, Act 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 (16 days annually). 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 (18 days annually). New employees accumulate retroactively after the first 3 months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) 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.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

### D. 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.

### E. 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 carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

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 as a consequence of their employment. The cost of insurance allocated to the PRNG and deducted from the state appropriation for the year ended June 30, 2023 amounted to \$769,817.

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 the DOLHR on a cost reimbursement basis.

### F. Accounting for Pension Costs

As further disclosed in Note 6, effective July 1, 2017, a new "Pay-As-You-Go" ("Pay-Go") system was enacted into law by Act No. 106 of 2017 (Act No. 106-2017), significantly reforming the defined benefit plan (the Plan) of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). Under the "Pay-Go" system, employers' contributions and other contributions ordered by special laws were all eliminated and substantially all the assets of the Plan were liquidated, and its proceeds transferred to the Commonwealth's General Fund for payment of pension benefits; therefore, since the enactment of Act No. 106-2017, the Commonwealth's General Fund makes direct payments to the pensioners and is then reimbursed for those payments by the participating employers.

Act No. 106-2017 impacts the benefits provided to ERS members as follows:

- New employees hired July 1, 2017 or later will be participants in a separate defined contribution plan and will not become ERS members.

continue

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- Effective July 1, 2017, current ERS members will no longer make any contributions to ERS. Prospectively, active members will participate in a separate defined contribution plan.

In addition, Act No. 106-2017 provides that ERS will be funded on a “Pay-As-You-Go” basis. This funding change resulted in the change in the applicable accounting standard from GASB Nos. 67/68 to GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, for employer financial accounting purpose.

As explained in more detail on Note 6, the Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (“2022 Plan of Adjustment”) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As ERS is a multiple employer plan and the benefits are no longer funded by a pension trust, GASB No. 73 applies to the pension benefits provided to each participating employer’s own employees. The Central Government and its component units are considered to be one employer. Other employers, like municipalities, also participate in ERS.

### G. Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, that replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governs the specifics of accounting for public OPEB plan obligations for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017.

In addition to the pension benefits described in Note 6, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and postemployment healthcare benefits (OPEB) for its retired employees in accordance with local law. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth. There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution (MIPC). This benefit is not funded by an OPEB trust, GASB No. 74 does not apply. It is financed on a “Pay-As-You-Go” basis from the General Fund of the Commonwealth of Puerto Rico and Municipalities funds (see Note 7).

## 3. CASH WITH FISCAL AGENTS (TREASURY DEPARTMENT OF THE COMMONWEALTH OF PUERTO RICO)

The funds of the PRNG are under the custody and control of the Secretary of the Puerto Rico Treasury Department pursuant to Act No. 230 of July 23, 1974, as amended, known as “Commonwealth of Puerto Rico Accounting Law”. The Treasury Department follows the practice of pooling cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the PRNG in such pooled cash accounts are available to meet its current operating requirements.

## 4. FUND ADVANCES

The PRNG receives fund advances from the Puerto Rico Treasury Department for the interim financing of Federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth’s Treasury as the corresponding Federal funds are received. During the fiscal year ended June 30, 2023, funds were advanced to the PRNG for this purpose.

continue

**5. LEASE COMMITMENTS**

The PRNG is obligated under certain leases accounted for as short-term leases. Operational leases do not grant property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. 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 years according to the following schedule during the lease term:

<b>Months</b>	<b>Monthly Payments</b>
01-12	\$ 46,978
13-24	47,548
25-36	48,734
37-48	48,734
49-60	49,334

The rent paid during the fiscal year ended on June 30, 2023 amounted to approximately \$551,141. Future minimum rental payments, under existing contracts are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2024	\$ 607,010
2025	614,215
2026	154,004
	<u>\$ 1,375,229</u>

**6. PENSION PLAN**

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, Deferred Outflows / Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2023.

***Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico***

**SIGNIFICANT CHANGES**

The Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (“2022 Plan of Adjustment”) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions (\$0.7 billion), eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits (\$0.1 billion), and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 (\$1.2 billion).

These changes reduced the Total Pension Liability as of June 30, 2022 by \$2.0 billion. The reduction is recognized immediately as a plan change. Following is presented the Summary of Plan Provisions as of June 30, 2022, and a comparison of major changes in participant data.

6. PENSION PLAN – continuation

<b>Participant Data</b>			
	<b>July 1, 2020 Census Data Collection</b>	<b>July 1, 2021 Census Data Collection</b>	<b>Total Changes</b>
<b><u>Active Members</u></b>			
Number	90,139	37,439	-52,700
Average Salary	\$ 29,569	\$ 35,636	\$ 6,067
Total Annual Salary	\$ 2,665,289,397	\$ 1,334,172,033	\$ (1,331,117,364)
<b><u>Retirees</u></b>			
Number	94,398	94,723	325
Average Monthly Basis System Benefit	\$ 1,116	\$ 1,109	\$ (7)
Average Monthly System Administered Benefit	\$ 78	\$ 71	\$ (7)
<b><u>Disabled Members</u></b>			
Number	12,828	12,259	-569
Average Monthly Basis System Benefit	\$ 414	\$ 414	\$ -
Average Monthly System Administered Benefit	\$ 215	\$ 209	\$ (6)
<b><u>Beneficiaries</u></b>			
Number	15,945	15,271	-674
Average Monthly Basis System Benefit	\$ 414	\$ 392	\$ (22)
Average Monthly System Administered Benefit	\$ 34	\$ 25	\$ (9)

Change in Assumptions since Prior Valuation

In accordance with GASB No. 73, the discount rate is based on a bond market index. PRGERS has selected the Bond Buyer General Obligations 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate increase from 2.16% as of June 30, 2021 to 3.54% as of June 30, 2022.

The load on the GASB No.73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants has increased from 2.5% to 5%. The increase is based on the available information on deferred vested participants.

The Total Pension Liability as of June 30, 2022 decreased by \$4.2 billion due to the increase in the discount rate and increased by \$0.7 billion due to the change in the load for deferred vested participants.

**(1) Summary of Plan Provisions**

Act No. 106 of August 23, 2017 (Act No. 106-2017) closed participation in the Defined Benefit Pension Plan for Participants of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (PRGERS) to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. This summary details the provisions under Act No. 3 of April 4, 2013 (Act No. 3-2013), which was effective July 1, 2013 and under which the benefits to be paid to PRGERS members are determined. Certain provisions are different for the three groups of members who entered PRGERS prior to July 1, 2013 as described below:

continue

6. PENSION PLAN – continuation

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program or System 2000).

Act No. 106-2017 eliminate the prior statutory employer contributions and changed the funding of PRGERS benefits to Pay-As-You-Go by the Commonwealth, public corporation or municipality. Prior to July 1, 2017, most benefits were paid from system assets while some benefits were paid by the General Fund, public corporation or municipality.

Subsequent to Act No. 106-2017, 2022 Plan of Adjustment eliminated the Act No. 127-1958 high risk death and disability benefits for System 2000, Act No. 3-2013, and Act No. 106-2017 members in high risk positions, eliminated future cost of living adjustment, including those on the Act No. 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022.

As directed by the System, the June 30, 2019 through June 30, 2021 valuations included the Act No. 127-1958 death and disability benefits for Act No. 106-2017 employees (e.g. those hired July 1, 2017 and later) in high-risk positions. These benefits are described in items 8b and 9b.

1 Type of Plan

The System is a contributory, hybrid defined benefit plan.

2 Effective Date

The System was established in 1951 by Act No. 447 of May 15, 1951 to be effective January 1, 1952. The plan was last amended under the 2022 Plan of Adjustment.

3 Eligibility for Membership

Members of the Employees Retirement System of the Government of Puerto Rico and its instrumentalities include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and were hired before July 1, 2017 (Act No. 106-2017). Employees include those in the following categories:

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective Officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employees.

continue

6. PENSION PLAN – continuation

Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor’s aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Controller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

System 2000 and Act No. 3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to PRGERS benefits based on the provisions of the 2022 Plan of Adjustment.

4 Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.
- c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).
- e. Municipality: The Municipality of San Juan (Article 1-104).
- f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Article 1-104 and 1-110).
- g. Employee: Any officer or employee of the Employer is regularly employed on a full time basis (Article 1-104).
- h. Creditable Service for Act No. 447-1951 members: The years and months of plan participation, during which contributions have been made, beginning on the later date of hire or January 1,1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Months in which less than 15 days of service are rendered do not count towards Creditable Service (Article 1-106).

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. Creditable Service also includes purchased service, if any (Article 1-106).

continue

6. PENSION PLAN – continuation

- i. Creditable Service for Act No. 1-1990 members: The years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Articles 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

- j. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).
- k. Average Compensation for Act No. 447-1951 members: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).
- l. Average Compensation for Act No 1-1990 members: the average of the last 5 years of compensation that the participant has received for Creditable Service. If annual compensation in the average period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)
- m. Contributions: The amount deducted from the compensation of a Member and the employer (Section 781).
- n. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). Prior to July 1, 2017, the rate was 2.50%. Due to Act No. 106-2017, regular interest ceased July 1, 2017.
- o. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with regular Interest (Article 1-104).
- p. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the System's experience and in accordance with the recommendations of the actuary.



6. PENSION PLAN – continuation

For purposes of converting the Define Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employees Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

- q. Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.
- r. Social Security Retirement Age (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below:

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

- s. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Account(Article 3-107).
- t. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).
- u. Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been made annually, effective each July 1.
  - i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
  - ii. System’s investment portfolio – the yield is equal to 90% (75% prior to July 1,2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
  - iii. Other alternatives adopted by the Board of the System.

continue

6. PENSION PLAN – continuation

- v. Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Saving Account as of June 30, 2013.
  - w. Credit to Defined Contribution Hybrid Contribution Account: The credits to the retirement savings account include (1) the Retirement Savings Account as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to PRGERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to Pay-As-You-Go funding under Act No. 106-2017, no credits are applied after June 30, 2017.
- 5 Coordination with Social Security for Act No. 447 Members: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System retroactive to the later of July 1, 1968 or to the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementary Plan.

6 Retirement Benefits

- 1) Eligibility for Act No. 447-1951 Members: Act No. 447-1951 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, and (4), for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 would be eligible to retire at any time.

Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

continue

6. PENSION PLAN – continuation

- 2) Eligibility for Act No. 1-1990 Members: Act No. 1-1990 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, and (3) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service.

- 3) Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

- 4) Eligibility for Members Hired after June 30, 2013: Attainment of age 67.

Act No.3-2013 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

- 5) Eligibility for Public Officers in High Risk Positions: Public Officers in High Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-year extensions (delaying retirement until age 62) may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable. Public Officers in High Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.
- 6) Benefit: An annuity payable for the lifetime of the members equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the Accrued Benefit determined as of June 30,2013. If the balance in the Defined Contribution Account is \$10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.
- 7) Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members: The accrued benefit as of June 30, 2013 shall be determined based on the Average Compensation for Act No. 447-1951 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

continue

6. PENSION PLAN – continuation

If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of Average Compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to Coordinate Plan, the benefit is re-calculated at the SSRA as 1.5% of Average Compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of Average Compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of Average Compensation if the member was under age 55 as of June 30, 2013 or 60% of Average Compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of Average Compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of Average Compensation multiplied by years of Credited Service up to 20 years, plus 2% of Average Compensation multiplied by years of Credited Service in excess of 20 years. The maximum benefit is 75% of the Average Compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to \$6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of Average Compensation in excess of \$6,600 multiplied by years of Credited Service in excess of 20 years, plus 2.0% of average Compensation in excess of \$6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of Highest Compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

- 8) Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members: The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1-1990 Commonwealth Police or Firefighter had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of Average Compensation if the member was under age 55 as of June 30, 2013 or 75% of Average Compensation if the member was at least age 55 as of June 30, 2013.

6. PENSION PLAN – continuation

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of Highest Compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. The maximum benefit is 90% of the Highest Compensation as a Mayor.

7 Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Define Contribution Hybrid Contribution Account is \$10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to 5 or more years of service (10 years of Credited Service for Act No. 447-1951 and Act No. 1-1990 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contribution and the Define Contribution Hybrid Contribution Account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the Accrued Benefit determined as of June 30, 2013.

8 Death Benefits

a. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act No. 447-1951 and Act No. 1-1990 members.

b. High-Risk Death Benefit under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

6. PENSION PLAN – continuation

Spouse's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity until death or remarriage (Act No. 127-1958 as amended).

Children's Benefit: 50% of the participant's Compensation at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act No. 127-1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 60% of the participant's Compensation at date of death, payable as an annuity for life. (Act No. 127-1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

c. Post-retirement Death Benefit for Members who retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013..

Benefit: The benefit is as follows (Act No. 105-1969 as amended by Act No. 4-1985).

- (i) For those married or with dependent children at the time of death, the annual income to a widow, or widower of dependent children is equal to 60% (50% if the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit.
- (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than \$1,000. (Article 2-113 and Act No. 524-2004)

d. Post-retirement Death Benefit for Members who retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Spouse's Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contribution for Act No. 447-1951 and Act No. 1-1990 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

6. PENSION PLAN – continuation

- e. *Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.*

9 Disability Benefits

- a. Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447-1951 and Act No. 1-1990 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

- b. High Risk Disability under Act No. 127-1958

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act No. 127-1958 (as amended). System 2000, Act No. 3-2013 and Act No. 106-2017 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Benefit: 80% (100% for Act No. 447 members) of Compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. Future COLAs were eliminated effective March 15, 2022. (Act No. 127-1958 as amended)

- c. Members who qualify for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

10 Minimum Benefits

- a. Past Ad hoc Increases: The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- b. Minimum Benefit for Members who Retired before July 1, 2013: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007). (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013)
- c. Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

continue

**6. PENSION PLAN – continuation**

- 11 Cost-of-Living Adjustments (COLA) to Pension Benefits: The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007). Future COLAs were eliminated effective March 15, 2022. (Various Acts)
- 12 Medical Insurance Plan Contribution: A payment of up to \$100 per month to the eligible medical insurance plan selected by the retiree or disabled member provided the member retired prior to July 1, 2013. (Act No. 483-2004 as amended by Act No. 3-2013)
- 13 Special "Bonus" Benefits:
  - a. Christmas Bonus: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act No. 144-2005 as Amended by Act No. 3-2013)
  - b. Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. (Act No. 155-2003, as Amended by Act No. 3-2013)

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

**7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

In addition to the pension benefits described in Note 6 the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

**(1) Plan Description**

The Other Postemployment Benefit Plan of the Commonwealth of Puerto Rico for Retired Participants of the Employees' Retirement System (the Plan) is an unfunded, defined benefit other postemployment healthcare benefit plan (OPEB). The Plan is administered on a "Pay-As-You-Go" basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). Under the guidance of GASB Statement No. 75, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit OPEB plan.

continue



**7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continuation**

***Healthcare Benefits***

The Plan covers a payment of up to \$100 per month to the eligible medical insurance plan selected by each member provided that the member retired prior to July 1, 2013 (Act No. 483, as Amended by Act No. 3-2013).

***Christmas Bonus Benefits***

The Christmas Bonus was \$200 per retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013 (Act No. 144, as Amended by Act No. 3-2013).

***Medication Bonus***

The Plan covers an annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act No. 155, as Amended by Act No. 3-2013)

**(2) Allocation Methodology**

GASB Statement No. 75 requires that the primary government and the component units that provide OPEB benefits through the same defined benefits OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense (benefit). The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

**8. CONTINGENCIES**

**A. Federal Awards**

In the normal course of operations, the PRNG participates in various Federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. 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.

**B. Other Audits**

The PRNG is also audited by the Office of the Comptroller for Puerto Rico ("the Comptroller"), the Office of the Inspector General of the U.S. Defense Department (OIG) and other grantor agencies or institutions. The Comptroller and the OIG have issued several reports on audits over the operations and management of the PRNG, some of which involve Federal programs.

## 8. CONTINGENCIES – continuation

Under certain circumstances, as provided by Act No. 104 dated June 29, 1955, as amended, the Commonwealth of Puerto Rico may provide its officers and employees of the Puerto Rico agencies and instrumentalities with legal representation, as well as assume the payment of any judgment that may be entered against them. There is a limitation of up to \$75,000 for the damages to a person and \$150,000 for the damages to more than one person or for more than one course of action, on the payment of such judgments. The oversight entities, such as the Puerto Rico Department of Justice, the Puerto Rico Treasury Department, and the Federal government, are evaluating actions to be taken against the PRNG and/or its employees, if any. The financial impact and enforcement actions, if any, that might be taken by the oversight entities cannot presently be determined.

### C. *Litigation*

The PRNG is a defendant in lawsuits arising in the normal course of governmental operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the laws 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 financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the PRNG.

## 9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

### PROMESA Overview

#### *Background*

**Prior to the enactment of PROMESA, Puerto Rico had been mired in an economic and demographic downward spiral for a decade.** As of 2018, the economy was \$18 billion smaller in real terms and the population was more than half a million smaller (largely due to outmigration) than it was in 2005 – trends that, even before recent natural disasters, were projected to continue. Over 40% of the population (including ~58% of Puerto Rican children) lives below the poverty line, and ~47% are dependent on Medicaid for healthcare.

Meanwhile, before PROMESA, the consolidated Commonwealth's outstanding debt and pension liabilities had grown to over \$120 billion – with more than \$70 billion in financial debt and more than \$50 billion in pension liabilities – an amount almost twice the size of Puerto Rico's economy.

Most of Puerto Rico's unaffordable debt has been dramatically reduced. The restructuring of the central government debt saved Puerto Rico more than \$50 billion in debt payments to creditors. The restructurings of the Puerto Rico Sales Tax Financing Corporation (COFINA) saved about \$17.5 billion, the Highways and Transportation Authority (HTA) about \$3 billion, and the Puerto Rico Aqueducts and Sewers Authority (PRASA) about \$400 million. The savings of more than \$70 billion reduced the debt burden on the people of the Island by approximately \$24,000 per person in Puerto Rico. This provided critical relief and will allow the government to manage its future finances with more certainty.

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

Restructuring the debt, however, was only half of PROMESA's mandate. The debt restructuring of the Puerto Rico Electric Power Authority (PREPA) and the Puerto Rico Industrial Company (PRIDCO) is pending. In order to fulfill the mandate of PROMESA, fiscal responsibility still needs to be secured over the long term. Necessary improvements to systems and procedures are underway. However, appropriate spending discipline to preserve and institutionalize the recent success and prevent Puerto Rico from falling back into old habits of overpromising and overspending that resulted in bankruptcy has not been achieved. Strong financial management is critical to long-term fiscal stability and will be required to restore access to the capital markets at reasonable rates.

**PROMESA**

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

**Oversight Board:** The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

The definition of "territorial instrumentality" in PROMESA provides that such definition includes an "instrumentality of a territory". In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

**Conditions for Termination of the Oversight Board**

The Oversight Board and the Government can more frequently communicate to the public and the markets about the financial performance of the Commonwealth. Since its establishment, the Oversight Board typically updates the fiscal plan annually, with a handful of exceptions. This annual update includes an updated revenue and expenditure forecast, with in-year public updates provided of actual performance relative to budget for TSA revenues and agencies. Moving forward, the Oversight Board will work with the Government to move toward periodic updates to forecasts, in addition to updates on actuals vs budget (e.g., quarterly).

This will allow the Oversight Board and Government to communicate transparently about changes to the outlook and get ahead of potential changes needed as conditions evolve. Note that in evaluating potential changes on a more frequent basis, the Oversight Board and Government may decide that no update is warranted (e.g., if the outlook is uncertain, or if the changes are not material).

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

The Oversight Board was designed to have a finite life, defined objectives, and defined tools and authorities to achieve those objectives. Every action taken by the Oversight Board over the past five years has been dedicated specifically and exclusively to completing its mission as stated in the law as soon as possible. The Oversight Board seeks to complete its work under PROMESA promptly, so that fiscal controls, fiscal sustainability, economic prosperity and growth can return to Puerto Rico.

PROMESA is specific in terms of how and when the Oversight Board can be terminated. The two provisions, found in Section 209 of PROMESA were designed to ensure that Puerto Rico's financial outlook is stabilized, and better financial management processes are institutionalized before the Board's oversight can be terminated. Now that the Commonwealth debt restructuring is completed and restructured debt service is included in Annual Budgets, in the coming months, the Oversight Board intends to provide more guidance on the performance standards and metrics by which the Section 209 requirements will be measured. In any case, while the Oversight Board must certify that these requirements have been satisfied, the Commonwealth Government bears the responsibility for completing the work necessary to meet Section 209 termination requirements.

*An Oversight Board shall terminate upon certification by the Oversight Board that:*

- 1) the applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and*
- 2) for at least 4 consecutive fiscal years--*
  - A. the territorial government has developed its Budgets in accordance with modified accrual accounting standards; and*
  - B. the expenditures made by the territorial government during each fiscal year did not exceed the revenues of the territorial government during that year, as determined in accordance with modified accrual accounting standards.*

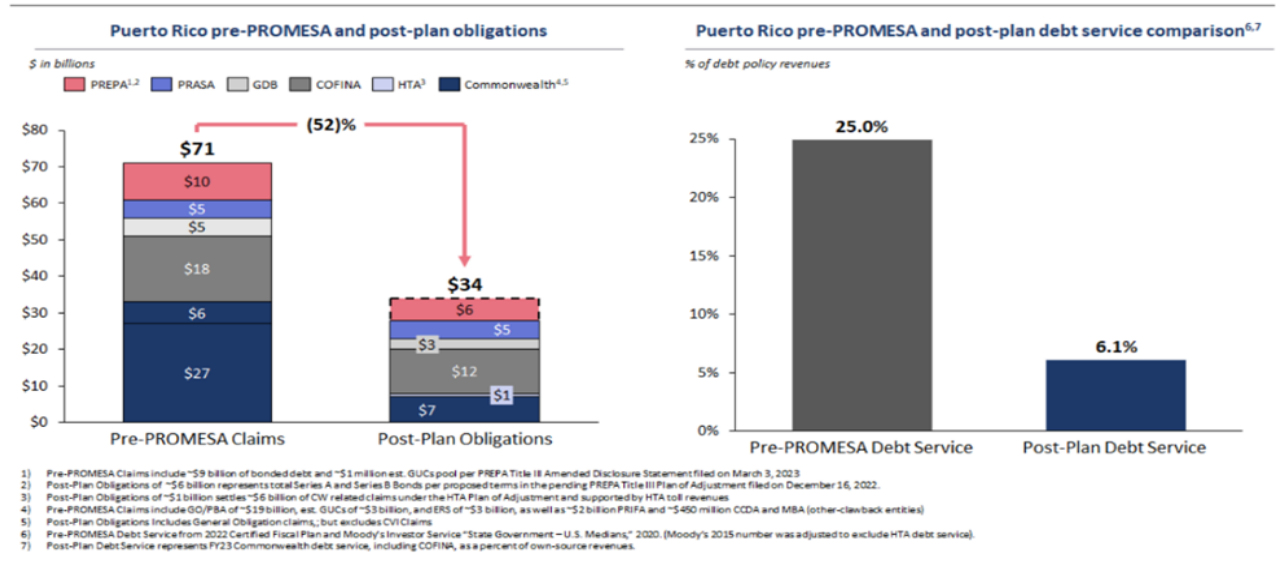
**Progress on Requirement Number 1: Adequate Access to Credit Markets at Reasonable Interest Rates**

***Sustainable Debt Restructuring***

The Commonwealth's debt has been drastically reduced and made more affordable. Prior to the enactment of PROMESA, the Government accumulated a debt burden of \$71 billion, roughly \$24,000 per resident of Puerto Rico. Through the concerted efforts of the Oversight Board and the Government described below, the debt is on course to be reduced to \$34 billion, as shown in Exhibit 1.

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 1: EVOLUTION OF PUERTO RICO'S OBLIGATIONS PRE- AND POST-PROMESA<sup>1</sup>



**Debt Management Policy:** The Commonwealth's Plan of Adjustment contains an ongoing Debt Management Policy that will lay the foundation for fiscal responsibility critical for future fiscal stability and sustainable economic growth. This Policy is adopted pursuant to Article 3 of Act 101-2020, as amended, known as the "Puerto Rico Debt Responsibility Act", which requires AAFAF adopt and maintain a debt management policy that is consistent with the Plan of Adjustment. Specifically, the Debt Management Policy includes several controls on the current and future indebtedness of the Commonwealth for net-tax supported debt that are described below. The definition of net-tax supported debt includes both the General Obligation bonds, the previously restructured COFINA debt and any debt the Commonwealth may issue in the future that is supported by its taxes. The 2023 Fiscal Plan does not anticipate the Commonwealth borrowing for any purpose over the next five years.

**Debt Management Policy Concepts:**

- Maximum annual debt service on all net-tax supported debt is limited to 7.94% or lower than the prior year's debt policy revenues (at the time of the Commonwealth's Title III exit the ratio was about 6.5%)
- Any new long-term borrowing must be for capital improvements only
- Newly issued debt must begin to amortize within two to five years of issuance
- Newly issued debt must have a maximum maturity of 30 years or less
- A refinancing of any debt must provide cash flow savings in every fiscal year and produce positive present value savings

**Restoration of market access at reasonable rates:** The Oversight Board will use specific performance standards and consult with independent third-party specialists to determine whether Puerto Rico has achieved market access at reasonable rates. The Commonwealth and its Instrumentalities will have to demonstrate they have achieved and sustained specific levels of fiscal performance and transparency consistent with municipal regulatory and market standards.

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

For example, in addition to bringing delinquent audited financial statements up to date, accessing credit markets will require the government to demonstrate its capacity to consistently deliver future audited financials on a timely basis, typically within 180 days from end of the prior fiscal year consistent with industry and Government Finance Officer Association (GFOA) “best practices” guidelines. Furthermore, the Commonwealth and Instrumentalities will have to adopt and institutionalize the financial practices and fiscal management reforms outlined elsewhere in this Fiscal Plan that are consistent with market standards and investor requirements. The government will also need to demonstrate its ability to comply with the regulatory requirements and securities laws for the issuance of municipal securities. This includes the ability to enter into a standard Continuing Disclosure Agreement (CDA) with dealers and obtain standard market legal and audit opinions.

To lay the groundwork to achieve market access, the Government recently met with credit agencies. It is likely credit rating agencies will look beyond the Section 209 provisions in assessing Puerto Rico’s credit worthiness. The rating agencies maintain detailed models to assess the riskiness of public sector debts. In addition to its standard metrics, the rating agencies have also historically required sustained periods of fiscal reform and recovery before assigning new credit ratings for previously bankrupt issuers. The government will need to demonstrate its ability to meet the criteria necessary to achieve credit ratings. The Oversight Board continues to work with the Government so it can eventually meet the requirements to gain access to, and the trust of, the credit markets.

In evaluating whether Puerto Rico has achieved reasonable rates, the Oversight Board will look to see whether new or restructured outstanding debt is actively trading in the municipal market at reasonable levels relative to market indices and will look for evidence investors are ready to invest in Puerto Rico again, including the level of interest from traditional municipal bond buyers. The Oversight Board will rely on the expert opinion of independent third-party entities with municipal market experience for compliance with this requirement.

***The Financial Management Agenda***

The 12 required initiatives to support the Financial Management Agenda, described in Exhibit 1, are grouped into three categories: Foundational, Central, and Supporting:

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9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 1: INITIATIVES TO ACHIEVE STRONG FISCAL MANAGEMENT

**Financial Management Agenda initiatives**

<b>Foundational initiatives</b> – lay the foundation for sound, sustained financial management	<b>Office of the Chief Financial Officer</b>	Aligns financial management functions across the Government under singular leadership, enabling consistent policies and procedures
	<b>A Civil Service Reform (CSR)</b>	Will result in more competitive compensation and better recruiting, training, and performance management for public service employees
<b>Central initiatives</b> – essential for meeting the conditions for terminating the Oversight Board	<b>Timely Audited Financial Statements</b>	Fulfill a prerequisite for issuing bonds at reasonable interest rates, and debt management policy implementation
	<b>Debt Management Policy</b>	Is necessary to assure investors, safeguard against future over borrowing, and ensure future market access
	<b>Budgeting Best Practices</b>	Budget best practices and federal funds management work together to help the Gov. more accurately forecast available revenue, prepare, and adhere to responsible spending plans, and maximize the use of federal funding to supplement local revenue sources
	<b>Federal Funds Management</b>	
<b>Supporting initiatives</b> – support other aspects of financial management improvement	<b>Automated time and attendance</b>	Will ensure that only active employees who are working get paid
	<b>Cash &amp; bank account monitoring</b>	Will close idle government bank accounts and reduce erroneous bank account activity and inaccurate cash reporting
	<b>Procurement best practices</b>	Will make Gov. purchases transparent to the public, reduce non-competitive contract awards, and standardize procurement rules
	<b>Non-partisan legislative scoring</b>	Will ensure that the fiscal impact of legislative actions is accurately estimated and that budgets are based on revenue forecasts
	<b>Real estate best practices</b>	Will ensure that all Gov.-owned property is accounted for, properly maintained, and delivers the maximum value to the people of PR
	<b>Real property registry</b>	Will streamline the land registration process, verify ownership of all land on the Island, and assist with tax compliance and distribution of DRF

**Implementation of the Agenda**

While the Government has taken initial steps to ensure that the Agenda initiatives are implemented in a coordinated manner that delivers promised results, implementation must be strengthened. Key steps the Government must take to achieve a successful implementation include:

- A Governor’s Management Council (GMC) consists of the chief operating officers (or equivalent senior officials) of major agencies and Government public corporations. The GMC, headed by the Governor, with the CFO as deputy, will serve as a steering committee for the Agenda’s implementation. Importantly, the GMC will provide a way for leadership across agencies to support Government-wide priorities and to build a community of management practice that identifies obstacles, solves problems, and innovates together. This initiative has been kicked off by the OCFO but is still a work in progress.
- Alternatively, expanding the role of the existing Enterprise Resource Management (ERP) Steering Committee, which may include monitoring implementation of the Agenda. The Steering Committee, led by Hacienda, includes representatives from all agencies who are responsible for Agenda initiatives.
- To provide Puerto Rico with the best chance for success and make the most of limited resources, the Governor must direct a small number of large agencies to meet standards of financial management excellence and provide financial services to smaller entities. These agencies can serve as centers of excellence to implement and maintain modern financial management standards across more than 100 units of government.

continue

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

Key steps the Government has already undertaken to further the implementation of the Agenda are:

- Executing the ERP Solution contract and a service agreement with an ERP implementor. The ERP Implementation began in November 2022. The Oversight Board anticipates continued collaboration as implementation begins.
- Creating detailed implementation plans for several initiatives, with definitive timelines, milestones, action steps, budgets, and responsibilities.
- Enacting Act 1-2023 for the creation of the Budget Office of the Legislative Assembly (OPAL for its Spanish acronym).
- Issuing the FY2019 and FY2020 audited financial statements.
- Establishing a comprehensive debt management policy approved by the Oversight Board.

The 2023 Fiscal Plan requires that the OCFO complete the required implementation items in Exhibit 3.

**EXHIBIT 3: ERP REQUIRED IMPLEMENTATION ACTIONS**

	<b>Required implementation actions</b>	<b>Responsible party</b>	<b>Deadline &amp; status</b>
<b>To be completed in FY 22</b>	▪ <b>Create an Executive Project Steering Committee</b> , chaired by the CFO and composed by other executive level officials to oversee the implementation.	▪ OCFO	▪ May 2021 <i>Completed</i>
	▪ <b>Designate project management team</b> (with 3+ FTEs) to monitor and evaluate the progress and completion of the Enterprise Resource Management implementation. This team should be dedicated to this project on a full-time basis.	▪ OCFO	▪ June 2021 <i>Completed<sup>1</sup></i>
<b>To be completed in FY 23</b>	▪ <b>Agree on a project plan with milestones and budget</b> for completion of phases and projections of total project completion.	▪ OCFO	▪ November 2022 <i>Completed</i>
	▪ <b>Select ERP solution and implementer.</b>	▪ OCFO	▪ December 2022 <i>Completed</i>
	▪ <b>Review and change accounting system cycles</b> , perform data clean-up to ensure new system does not start with inaccurate data, change management strategy for staff involved in all accounting cycles.	▪ OCFO	▪ June 2023 <i>Revised deadline</i>
<b>To be completed in FY 24</b>	▪ <b>Complete Annual Financial (ACFR) track</b>	▪ OCFO	▪ October 2023 <i>New milestone</i>
	▪ <b>Reassess the full project timeline and fees based on the results achieved in Wave 1.</b> Furthermore, at the conclusion of Wave 1, present the impact of lessons learned throughout the implementation process of Wave 1.	▪ OCFO	▪ December 2023 <i>Revised deadline</i>
<b>To be completed in FY 25</b>	▪ <b>Complete finance, budget, and sourcing track for all central Government agencies</b>	▪ OCFO	▪ July 2024 <i>New milestone</i>
	▪ <b>Complete human capital management track for all central Government agencies</b>	▪ OCFO	▪ July 2024 <i>New milestone</i>
	▪ <b>Complete ERP Wave 1 implementation for the internal ERP system at Hacienda.</b>	▪ OCFO	▪ September 2024 <i>Revised deadline</i>

1. Milestone budget incentive was released on November 4, 2021, upon completion

**Timely Audited Financial Statements**

Puerto Rico has had fiscal management challenges for years that created growing Government deficits. For the Government to adhere to structurally balanced budgets reflecting ongoing fiscal discipline, it must return to the timely publication of audited financial statements and related information—key steps to regain access to credit markets, as required by PROMESA for the termination of the Oversight Board. Best practice calls for audited statements to be published no later than 180 days (six months) after the end of each fiscal year.



**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

The 2023 Fiscal Plan requires the following implementation activities:

- Audited financial statements will be issued no later than 180 days (six months) after the end of the fiscal year, consistent with financial reporting preferred best practices according to the Government Finance Officers Association (GFOA). To ensure this schedule is met, the Government will direct that:
  - Component units audited financial statements are issued three months after the close of the fiscal year.
  - Reporting formats and distribution are standardized.
  - Auditors identify control deficiencies to managers and suggest corrective actions prior to publishing an audit.
- Financial information will be consistently monitored and updated. Agencies and component units will:
  - Follow the policies and procedures that define a ‘record to report’ cycle, such as:
    - Preparing monthly, quarterly, and annual accounting closings and financial statements
    - Performing recurring monthly cash reconciliations to close accounting period
- Agencies and component units will improve their internal capacity and capability to prepare timely and accurate financial statements.
- Personnel will be provided with job-specific training.
- The financial reporting module of the ERP system under development will be utilized to support the Government in performing these tasks. Specifically, the financial reporting module of the ERP system will (i) allow for more timely reporting of actuarial reports, (ii) create an ability to close financial records in a timely manner, and (iii) complete the necessary steps for the timely submission of the annual comprehensive financial report.

*Progress to date*

The most recent ACFRs, for fiscal years 2019 and for 2020, were published in April 2022 and September 2022, 34 and 27 months after the close of the respective fiscal years. Although these were not finalized within the six-month period, the Government is making progress in reducing the backlog of past ACFRs.

Multi-year contracts have been established to audit the Basic Financial Statements and component units, which should allow a more coordinated and efficient audit process. As noted, the ERP system cloud provider and implementation partner firm have been selected.

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9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

EXHIBIT 5: TIMELY AUDITED FINANCIAL STATEMENTS

	<u>Required implementation actions</u>	<u>Responsible party</u>	<u>Deadline &amp; status</u>
To be completed in FY 22	▪ <b>Issue FY19 audited financial statement.</b>	▪ OCFO	▪ April 2022 Completed
	▪ <b>Issue FY20 audited financial statement.</b>	▪ OCFO	▪ September 2022 Completed
To be completed in FY 23	▪ <b>Expedite actuarial reports</b> to complete CU financial a "record-to-report" cycle.	▪ OCFO	▪ Completed
	▪ <b>Establish a multi-year contract with prequalified contractors</b> for ACFR and Component Units.	▪ OCFO	▪ Completed
	▪ <b>Issue FY21 audited financial statement.</b>	▪ OCFO	▪ March 2023 Revised deadline
	▪ <b>Perform closing financial records</b> on a monthly, interim, and annual basis for agencies and Component Units.	▪ OCFO	▪ December 2023 On-Track
	▪ <b>Publish a management letter for each audit</b> that includes management's comments and corrective actions for auditor-identified control deficiencies.	▪ OCFO	▪ Ongoing
	▪ <b>Issue FY22 audited financial statement.</b>	▪ OCFO	▪ September 2023 Revised deadline
To be completed in FY 24	▪ <b>Develop policies and procedures</b> that define and support a "record-to-report" cycle.	▪ OCFO	▪ December 2023 Revised deadline

**Progress on Requirement Number 2: Four Years of Budgets Developed with Modified Accrual Accounting Principles and Expenditures which have not Exceeded Revenues**

***Four Years of Developing Budgets in Line with Modified Accrual Accounting Standards***

PROMESA's conditions for termination of the Oversight Board include that the Government budget is in accordance with modified accrual accounting standards and that expenditures do not exceed revenues for four consecutive fiscal years. Meeting these conditions will require adopting and implementing best practices for budget development and monitoring, revenue forecasting, and accounting. The 2023 Fiscal Plan requires the following implementation activities:

- The OCFO will establish a revenue committee that reviews budget-to-actuals and provides guidance on the revenue forecast for the next twelve months. The revenue committee will be presented with economic forecasts provided by the Government and other experts to support a consensus view of macroeconomic trends. The recommendations of the revenue committee will provide parameters for budget development and appropriations processes.
- The OCFO will propose legislation requiring quarterly revenue analysis and budgetary adjustments as necessary. The proposed legislation will include language to ensure that a revenue source is identified before any spending bill is enacted.
- With the implementation of the ERP system, the OCFO will present the results of the revenue and expense budget-to-actuals variance report each quarter, informing the public of any required spending changes based on recommendations from the revenue committee. The OCFO will be able to explain all variances from the original forecast revenues.
- The OCFO will propose legislation to amend Act 230-1974 to ensure the Office of Management and Budget (OMB) has authority to assign budgets for the entire Commonwealth

continue

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

- The OCFO will provide a summary of SRFs that can be consolidated into the General Fund (GF) and a list of SRFs that will maintain zero-balance sweep accounts.
- OMB will develop training materials to ensure all entities are using best practices to prepare budgets. OMB will host training seminars every two months for financial staff members.
- The OMB will leverage OCFO staffing initiatives to increase the financial management capacity across government.
- To promote budgetary control processes, OMB will evaluate and issue recommendations regarding reapportionment requests for the Commonwealth entities that have a total Budget GF appropriation under \$5 million.

*Progress to date*

Due to the importance and impact on the operations of the rest of the government entities, the Government determined that the OMB's Budget Division was one of the essential areas that required attention. As part of its analysis, the OMB reviewed different organizational structures and researched best practices that could be implemented in this division, in compliance with all the emerging requirements. As a result of these efforts, OMB developed a work plan to improve on three main areas:

- Budget Operations – focused on the daily budget operations regarding government agencies
- Strategic Planning – focused on the planning of the budget process both long and short-term
- Quality and Compliance – focused on monitoring compliance requirements and regulations as defined in the approved Budget, as well as the Fiscal Plan

OMB continues seeking and implementing best practices regarding access to information as well as complying with government management in accordance with Fiscal Transparency public policy for the Government of Puerto Rico. As a direct result of these efforts, new modules of Enterprise Resource Management (ERP) have been developed, such as Roster, CapEx and Spending Projections.

These modules have the main objective of providing clear visibility to standardize and make the budget process more agile and efficient.

There has been additional progress made:

- Bi-weekly meetings with Hacienda are in place to review budgets.
- The principle of revenue neutrality is applied to some extent when preparing budgets, though not yet sufficiently institutionalized into budget development.
- Three circular letters have been published, including:
  - No. 1300-03-22: To establish the monthly workplan requirement for all agencies and public corporations.
  - No. 1300-05-22: To require a corrective action plan for all control deficiencies identified by external auditors, regulators, the comptroller's office, etc.
  - No. 1300-13-22: To establish a collaboration with the General Inspector Office of Puerto Rico for them to visit each agency and component unit to ensure their compliance with the monthly closings.

continue

9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Limited progress has been made in establishing a reporting process that includes the Judiciary and Legislative branches.

There have been delays in the completion of the items due to cost overruns.

EXHIBIT 8: BUDGET BEST PRACTICES

	<u>Action items</u>	<u>Responsible party</u>	<u>Deadline &amp; status</u>
<b>To be completed in FY 24</b>	▪ <b>Prepare training materials</b> to support budget best practices and compliance with modified accrual.	▪ OMB	▪ July 2023 <i>Revised deadline</i>
	▪ <b>Prepare reporting template or financial system</b> to allow for consolidated reporting in a consistent format showing compliance with modified accrual.	▪ OCFO	▪ October 2023 <i>Revised deadline</i>
	▪ <b>Enact legislation</b> to establish a revenue committee requiring quarterly revenue analysis and identification of revenue sources prior to enactment of spending bills.	▪ Legislature and AAFAF	▪ October 2023 <i>Revised deadline</i>
	▪ <b>Establish a reporting process</b> that includes the Judiciary and Legislative branches.	▪ AAFAF	▪ December 2023 <i>Revised deadline</i>
	▪ <b>Issue circular letters</b> detailing reporting requirements.	▪ OCFO and AAFAF	▪ December 2023 <i>Revised deadline</i>
	▪ <b>Prepare and present consolidated reporting.</b> Timely and regularly reported budget to actuals of revenues and expenses at the close of each month.	▪ OCFO	▪ May 2024 <i>Revised deadline</i>
	▪ <b>Amend Act 230-1974</b> to allow OMB oversight over all Commonwealth entities.	▪ Legislature	▪ May 2024 <i>Revised deadline</i>

Fiscal Plan – 2023

The 2023 Fiscal Plan approved on April 2, 2023 requires the following implementation activities:

- The OMB has the responsibility of ensuring compliance and adequate management of federal funds by state government agencies. Currently, federal funds represent 40% of PR's FY2023 Consolidated Budget.
- Grants Management Office (GMO) will be centrally managed within the OMB and reporting requirements will be harmonized across agencies.
  - OMB will publish bi-weekly reports of disbursements of federal funds.
  - Centralized reporting of funds will be utilized to understand which federal funds are not being optimized.
  - Agencies will be aware of all the funding made available to them from the disaster relief funds and COVID-stimulus, among other recurrent programming sources.
- All agencies will use a centralized accumulation fund to track federal allocations, obligations, commitments, and disbursements of federal funding.
- Grant revenue and expenditures and reprogramming funds will be tracked and reported monthly.
  - Agencies will use a harmonized version of the most recent GASB practices for reporting revenues.

continue

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

- Federal Funds Management will benefit greatly from using the Grants Management Module of the ERP system. This module will allow the Government to monitor fund performance by viewing funds available at both detail and summary levels.
- To facilitate the management and oversight of federal funds, the OMB, together with the OCFO, must, establish a GMO using existing governmental personnel and financial resources. This office would have several responsibilities, including:
  - Risk Management:
    - Compliance – Reducing possible noncompliance by providing technical assistance to state agencies and municipalities.
    - Unspent funds – Equip local government entities with the information and tools needed to manage and use federal grants efficiently and in accordance with federal regulations.
    - Lost opportunities – In collaboration with the federal government, provide the latest information on new federal funding opportunities and their eligibility requirements to state agencies.
  - Capacity Building:
    - The GMO will provide capacity building activities to maximize the return of federal investment in Puerto Rico.
    - Training will be provided on topics such as federal regulations, sources of funding, reporting, best practices, and overall grant management.
    - Supporting the development of local capacity ensures long-term compliance with federal regulations and requirements.
    - Implement change management within each agency to ensure continuation of federal funds.
- Policy Making:
  - Development of uniform models of Manuals and Standard Operating Procedures to establish the minimum requirements for agencies to follow when drafting their own.
  - Development of educational material, guides, and communications in accordance with applicable laws and regulations.
  - These models will ensure uniformity throughout the government-wide framework in the management of federal funds as well as improve visibility and accountability.
  - The policy-making process will include possible changes and amendments in current laws, circular letters, and local regulations to ensure they are in conformity with federal guidelines and regulations, such as 2 CFR Part 200.
- Fiscal Guidance:
  - Coordinated budgets to complement state and federal funding sources, in compliance with applicable laws and regulations.
  - Develop corrective action plans to provide the technical assistance necessary to rectify any critical findings.
  - Provide technical assistance to ensure compliance with matching funds and negotiate indirect cost rate agreement, when applicable.

continue

**9. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation**

- Facilitator with State and Federal Government:
  - The GMO, in close collaboration with the OCFO, will serve as a liaison between the Government of Puerto Rico and Federal agencies to achieve continuity of efforts, as well as collaborate in the development of local capacity.
  - With the GMO providing support between local agencies and their federal counterparts, a consistent exchange of information will further expand the knowledge in the local government improving compliance and streamlining disbursements.
- Data Analysis:
  - Assess federal grant data, allowing for strategic decision making and reduction of missed opportunities.
  - Collaborate with the ERP Steering Committee to ensure the system contemplates the requirements for federal programs.
  - If necessary, analyze the implementation of grants management software to have visibility of all federally funded programs in Puerto Rico.

Progress update

- The OMB has appointed a Director of the Grants Management Office (GMO). The GMO is to propose a suitable structure for the office.
- The creation of the Grants Management Office is currently being reviewed by the Oversight Board.
- The Grants Management Office is to be overseen by the Director of OMB.

**10. RELATED PARTY TRANSACTIONS**

The PRNG has the following transactions with governmental units:

- ◆ PRNG paid LUMA Energy the amount of \$7,183,325 for services provided during this fiscal year.
- ◆ PRNG paid to Puerto Rico Aqueduct and Sewer Authority the amount of \$1,577,490 for services provided during this fiscal year.
- ◆ PRNG paid to Puerto Rico General Services Administration the amount of \$48,093 for gasoline, diesel, and motor vehicles maintenance services provided during this fiscal year.

**11. SUBSEQUENT EVENTS**

The PRNG has evaluated subsequent events through March 26, 2024, the date which the financial statement was available to be issued. No additional subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes.

**END OF NOTES**

**PART II**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS AND UNIFORM GUIDANCE**

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COMMONWEALTH OF PUERTO RICO  
 PUERTO RICO NATIONAL GUARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>U.S. DEPARTMENT OF DEFENSE – NATIONAL GUARD BUREAU PROGRAMS:</b>				
National Guard Military Construction Projects	12.400		\$ -	\$ 82,382
National Guard Military Operations and Maintenance (O&M) Projects	12.401		-	24,392,513
National Guard Youth Challenge Program	12.404		-	4,877,693
<b>Total U.S. Department of Defense Programs</b>			-	<b>29,352,588</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY PROGRAM:</b>				
Puerto Rico Central Office of Recovery and Reconstruction – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036		-	405,161
<b>Total U.S. Department of Homeland Security Program</b>			-	<b>405,161</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ -</b>	<b>\$ 29,757,749</b>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

## 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activities of the Puerto Rico National Guard of the Commonwealth of Puerto Rico (PRNG) under programs of the Federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the PRNG, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statement.

The PRNG reporting entity is defined in Note (1) (A) to the financial statement. All Federal financial awards received directly from Federal agency as well as Federal financial awards passed-through other government agencies, if any, are included on the Schedule.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.
- D. The PRNG has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. The amount expended includes \$1.2 million claimed as an indirect cost recovery using an approved indirect cost rate between 1% to 3% for National Guard Military Operations and Maintenance (O&M) Projects programs appendices and for National Guard Youth Challenge program an indirect cost rate that does not exceed 3% based on salaries and wages, including fringe benefits.

## 3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other Federal award reports submitted directly to Federal granting agencies.

## 4. ASSISTANCE LISTING NUMBER

The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all Federal assistance award mechanisms, including Federal grants and cooperative agreements.

## 5. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES – GOVERNMENTAL FUNDS

Expenditures of federal awards are reported in PRNG's Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Fund in the Federal Grants Fund column.

**6. MATCHING COSTS**

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule. During the fiscal year ending on June 30, 2023, the PRNG performed matching allocations from state funds amounting to \$5,743,685.

**END OF NOTES**

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*“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”*

**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**

**Major General (PR) Miguel A. Méndez**  
**Adjutant General**  
**Puerto Rico 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 financial statement of the **Puerto Rico National Guard of the Commonwealth of Puerto Rico (PRNG)**, for the fiscal year ended June 30, 2023, and the related notes to financial statement, which collectively comprise **PRNG’s** financial statement, and have issued our report thereon dated March 26, 2024. Our report includes a paragraph indicating that the financial statement only purports to present the cash receipts and cash disbursements attributable to the **PRNG**.

**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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **PRNG’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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 to be material weakness.

**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**

**Major General (PR) Miguel A. Méndez, Adjutant General**

**Puerto Rico National Guard of the**

**Commonwealth of Puerto Rico**

Page 2

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **PRNG's** financial statement are free of 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 financial statement. 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001.

**PRNG's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the **PRNG's** response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The **PRNG's** response was not subject to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **PRNG's** internal control or on compliance. This report is an integral part of an audit reformed in accordance with *Government Auditing Standards* in considering the **PRNG's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CPA DIAZ-MARTINEZ, CSP

Certified Public Accountants & Consultants

License Number 12, expires on December 1, 2025

Caguas, Puerto Rico

March 26, 2024

Stamp No. E539421 of the Puerto Rico Society of Certified Public Accountants were affixed to the original report.





*“ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES”*

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

**Major General (PR) Miguel A. Méndez**  
**Adjutant General**  
**Puerto Rico National Guard of the**  
**Commonwealth of Puerto Rico**  
**San Juan, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

***Qualified Opinions***

We have audited the **Puerto Rico National Guard of the Commonwealth of Puerto Rico (PRNG)**’s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **PRNG**’s major Federal programs for the fiscal year ended June 30, 2023. The **PRNG**’s major Federal programs are identified in the Summary of Auditors’ Result Section of the accompanying Schedule of Findings and Questioned Costs.

***Qualified Opinions on National Guard Military Operations and Maintenance (O&M) Projects, and National Guard Youth Challenge Program***

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” section of our report, the **PRNG** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on *National Guard Military Operations and Maintenance (O&M) Projects, and National Guard Youth Challenge Program* for the fiscal year ended June 30, 2023.

***Basis for Qualified Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 **PRNG** 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 qualified opinions on compliance for each major Federal program. Our audit does not provide a legal determination of **PRNG**’s compliance with the compliance requirements referred to above.

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

**Major General (PR) Miguel A. Méndez, Adjutant General  
Puerto Rico National Guard of the  
Commonwealth of Puerto Rico**

Page 2

***Matters Giving Rise to Qualified Opinions on National Guard Military Operations and Maintenance (O&M) Projects, and National Guard Youth Challenge Program***

As described in the accompanying Schedule of Findings and Questioned Costs, the **PRNG** did not comply with requirement regarding the (ALN 12.401) *National Guard Military Operations and Maintenance (O&M) Projects, and (ALN 12.404) National Guard Youth Challenge Program* as described in Finding Reference Number 2023-002 for Reporting.

***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, status, regulations, rules, and provisions of contracts or grant agreements applicable to the **PRNG's** Federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **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 GAAS, *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 that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the **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 Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether do 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 **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 the **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 the **PRNG's** internal control over compliance. Accordingly, no such opinion is expressed.



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

Major General (PR) Miguel A. Méndez, Adjutant General  
Puerto Rico National Guard of the  
Commonwealth of Puerto Rico

Page 3

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 internal control over compliance that we identified during the audit.

## **Other Matters**

*Government Auditing Standards* requires the auditor to perform limited procedures on the PRNG's response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The PRNG's response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The PRNG is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The PRNG's corrective action plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

## **Report on Internal Control Over Compliance**

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weakness.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 to be material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the PRNG's response to the internal control over compliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The PRNG's response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

**Major General (PR) Miguel A. Méndez, Adjutant General  
Puerto Rico National Guard of the  
Commonwealth of Puerto Rico**

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The **PRNG** is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The **PRNG's** corrective action plan was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.



CPA DIAZ-MARTINEZ, CSP  
Certified Public Accountants & Consultants  
License Number 12, expires on December 1, 2025

Caguas, Puerto Rico  
March 26, 2024

Stamp No. E539422 of the Puerto Rico Society of Certified  
Public Accountants were affixed to the original report.

**PART III**  
**FINDINGS AND QUESTIONED COSTS**

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SECTION I – SUMMARY OF AUDITORS’ RESULTS

**Financial Statements**

Type of auditor's report on whether the Financial Statements Audited were prepared in accordance with special reporting framework:

- Unmodified Opinion  
 Modified:  Qualify Opinion  
 Adverse Opinion  
 Disclaimer Opinion

Internal control over financial reporting:

- Significant deficiency (ies) identified?  Yes  No
- Material weakness (es) identified?  Yes  No
- Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Any audit finding disclosed that are required to be reported in accordance with 2 CRF 200.516(a)?

- Yes  No

Type of auditor's report issued on compliance for each Major Federal Programs:

- Unmodified Opinion  
 Modified:  Qualify Opinion  
 Adverse Opinion  
 Disclaimer Opinion

Internal control over Major Federal Programs::

- Significant deficiency (ies) identified?  Yes  No
- Material weakness (es) identified?  Yes  No
- Known Questioned Costs Greater than \$25,000 for a Compliance Requirement on a Major Program?  Yes \$ -  None Reported
- Known Questioned Costs Greater than \$25,000 on an Nonmajor Program?  Yes \$ -  None Reported
- Known or Likely Fraud Affecting a Federal Award?  Yes \$ -  None Reported

**Questioned Costs**

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
12.401	National Guard Military Operations and Maintenance (O&M) Projects
12.404	National Guard Youth Challenge Program

Dollar threshold used to distinguish between Type A and Type B Programs:

\$892,732

- Auditee qualified as low-risk auditee?  Yes  No

SECTION II – FINANCIAL STATEMENT FINDINGS

<b>FINDING REFERENCE NUMBER</b>	<b>2023-001 (See Finding Reference Number 2023-002)</b>
<b>TYPE OF FINDING</b>	<b>MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE</b>
<b>CRITERIA</b>	2 CFR §200.510 Financial Statements, (b) states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the schedule must: (1) list individual Federal Programs by Federal agency, (2) for Federal awards received as a subrecipient, the name of the Pass-Through Entity and identifying number assigned by the Pass-Through Entity must be included, (3) provide total Federal awards expended for each individual Federal program and the Assistance Listing Number or other identifying number when the Assistance Listing Number information is not available, (4) Include the total amount provided to subrecipients from each Federal program, (5) for loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
<b>STATEMENT OF CONDITION</b>	The <b>PRNG</b> reported total Federal expenditures of \$28,573,040 on the SEFA that was submitted with the year-end financial reporting package. Our tests revealed that the Federal expenditures reported were understated by \$1,184,709. The National Guard Military Operations and Maintenance (O&M) Projects and the National Guard Youth Challenge Program indirect costs expenditures were not recorded in the <b>PRNG</b> accounting system by Assistance Listing Number or funding source; and therefore, not included on the original SEFA provided for audit purposes. Since the Federal expenditures are not readily identified in the accounting records, additional research was required to determine Federal expenditures. A revised SEFA was submitted by <b>PRNG</b> containing corrections for errors described above.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	2023-002 (See Finding Reference Number 2023-001)
<b>FEDERAL PROGRAMS</b>	(ALN – 12.401) NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE (O&M) PROJECTS; (ALN – 12.404) NATIONAL GUARD YOUTH CHALLENGE PROGRAM U.S. DEPARTMENT OF DEFENSE – NATIONAL GUARD BUREAU
<b>AWARD NUMBERS</b>	W912LR-22-2-1000 (Federal Award Years 2010-2023)
<b>COMPLIANCE REQUIREMENT</b>	REPORTING
<b>TYPE OF FINDING</b>	<b>MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS</b>
<b>CRITERIA</b>	2 CFR §200.510 Financial Statements, (b) states that the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended. At a minimum, the schedule must: (1) list individual Federal Programs by Federal agency, (2) for Federal awards received as a subrecipient, the name of the Pass-Through Entity and identifying number assigned by the Pass-Through Entity must be included, (3) provide total Federal awards expended for each individual Federal program and the Assistance Listing Number or other identifying number when the Assistance Listing Number information is not available, (4) Include the total amount provided to subrecipients from each Federal program, (5) for loan or loan guarantee programs identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
<b>STATEMENT OF CONDITION</b>	The <b>PRNG</b> reported total Federal expenditures of \$28,573,040 on the SEFA that was submitted with the year-end financial reporting package. Our tests revealed that the Federal expenditures reported were understated by \$1,184,709. The National Guard Military Operations and Maintenance (O&M) Projects and the National Guard Youth Challenge Program indirect costs expenditures were not recorded in the <b>PRNG</b> accounting system by Assistance Listing Number or funding source; and therefore, not included on the original SEFA provided for audit purposes. Since the Federal expenditures are not readily identified in the accounting records, additional research was required to determine Federal expenditures. A revised SEFA was submitted by <b>PRNG</b> containing corrections for errors described above.
<b>QUESTIONED COSTS</b>	None
<b>PERSPECTIVE INFORMATION</b>	<b>PRNG</b> Management does not have an adequate internal control system to be able to identify on time and accurately report the expenditures incurred under the National Guard Military Operations and Maintenance (O&M) Projects and the National Guard Youth Challenge programs. It was identified that the expenses incurred have not been identified in their accounting by Assistance Listing Number, so that they can generate a report with the expenses incurred and that these can be reconciled with their accounting records; this caused delays and errors in the amounts initially submitted to SEFA.
<b>STATEMENT OF CAUSE</b>	The primary cause for the difference was the method used by the <b>PRNG</b> to prepare the SEFA. <b>PRNG</b> failed to identify the Federal grants expended during the fiscal year and to keep records of the transactions related to the Federal programs to properly identify the Federal programs and transactions when the SEFA is prepared causing the preparation of an incomplete and misstated SEFA.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>FINDING REFERENCE NUMBER</b>	2023-002 (See Finding Reference Number 2023-001) – continuation
<b>POSSIBLE ASSERTED EFFECT</b>	<b>PRNG</b> may fail to include all Federal programs and total expenditures in the SEFA causing misstatements in the schedule. This situation may lead to errors in the determination if a Single Audit is required to <b>PRNG</b> and could provoke an incorrect major program determination performed by the auditor, resulting in the most likely exclusion of a major program for audit purpose.
<b>IDENTIFICATION AS A REPEAT FINDING</b>	Not previously reported.
<b>RECOMMENDATION</b>	We recommend <b>PRNG</b> to maintain adequate records related to the Federal programs to properly identify the Federal programs/transactions when the SEFA is prepared. In addition, <b>PRNG</b> must perform regular fiscal monitoring over the Federal programs transactions to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA.
<b>VIEWS OF RESPONSIBLE OFFICIALS</b>	<p>In response to the audit finding related to the identification of the catalog number in our federal accounts, we will take the following actions:</p> <ul style="list-style-type: none"><li>• We will update our MIP Accounting System to ensure that the necessary adjustments are made to correctly identify the catalog number in all transactions related to federal accounts.</li><li>• We will implement clear and efficient procedures to ensure compliance with CFR 200 regarding the identification and recording of the corresponding catalog numbers.</li><li>• We will provide training to relevant staff, especially those responsible for accounting and finance, on the new policies and procedures for properly handling the identification of catalog numbers in our federal operations.</li></ul>
<b>IMPLEMENTATION DATE</b>	June 30, 2024
<b>RESPONSIBLE PERSON</b>	Rosa Barreto, Finance and Budget Director

**END OF SCHEDULE**



(1) Audit Findings that have been Fully Corrected:

*Findings Related to the Financial Statement:*

FISCAL YEAR 2022

<b>Finding Reference Number</b>	<b>2022-01</b>	<b>Noncompliance – Late submittal of required reports</b>
<b>Statement of Condition</b>	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).	
<b>Recommendations</b>	The PRNG must determine if the PRDOL will enforce the collection of past due balances, in which case, a budget assignment will have to be 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.	
<b>Current Status</b>	The PRNG submitted the corresponding reports.	

(2) Audit Findings not Corrected or Partially Corrected:

*Findings Related to the Federal Awards:*

FISCAL YEAR 2022

<b>Finding Reference Number</b>	<b>2022-02</b>	<b>Noncompliance and Material Weakness – Activities Allowed or Unallowed / Allowable Costs/Cost Principles</b>
<b>U.S. Department of Defense</b>	<b>(ALN – 12.401) National Guard Military Operations and Maintenance (O&amp;M) Projects</b>	
<b>Statement of Condition</b>	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 contract. Thereafter, the contractor agreed to return the amount collected from the Fire Department of \$2,882, and PRNG cancelled the agreement, but after disbursing \$23,250 under the contract.	
<b>Recommendations</b>	Management should develop procedures and controls to ensure expenditures charged to Federal awards are adequately supported and allowable under Federal regulations.	
<b>Questioned Cost</b>	\$23,250	
<b>Current Status</b>	No final determination has been received from the Federal Awarding Agency.	

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

FISCAL YEAR 2021

**Finding Reference Number**                      2021-02                      **Noncompliance and Material Weakness – Procurement, Suspension and Debarment**

**U.S. Department of Defense**                      **(ALN – 12.401) National Guard Military Operations and Maintenance (O&M) Projects**

**Statement of Condition**                      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 Service Administration Act No. 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 for 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 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;
- 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.

continue

(2) AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED: – continuation

**Recommendations** The PRNG's management must ensure that Purchasing Agents always maintain records sufficient to detail the history of procurement, to include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. The PRNG must request the bidding information to ASG when the purchase or services have been completed in order to obtain the information required and improve its controls to comply with procurement standards as mentioned above.

**Questioned Cost** Unable to determine because the contract files were not provided.

**Current Status** No final determination has been received from the Federal Awarding Agency.

**FISCAL YEAR 2021**

**Finding Reference Number** 2021-03 Noncompliance and Significant Deficiency – Equipment Real Property Management

**U.S. Department of Defense** (ALN – 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 award, 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.

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 process of decommission still included in the property record.

A similar finding was reported las year as 2020-04.

**Recommendations** The audit recommends that the PRNG strengthen its safeguarding controls and bookkeeping procedures regarding property and equipment acquired to prevent theft, loss, and misuse.

**Questioned Cost** None.

**Current Status** No final determination has been received from the Federal Awarding Agency.

(2) **AUDIT FINDINGS NOT CORRECTED OR PARTIALLY CORRECTED:** – continuation

<b>Finding Reference Number</b>	<b>2021-04</b>	<b>Noncompliance and Significant Deficiency – Allowable Cost/Cost Principles</b>
<b>U.S. Department of Defense</b>	<b>(ALN – 12.401) National Guard Military Operations and Maintenance (O&amp;M) Projects</b>	
<b>Statement of Condition</b>	The auditors noted in twenty-three instances from sixty timesheets tested were not approved by the supervisor. Payroll expenses by supported by a system of internal control that provides reasonable assurance that the payroll charged are accurate, allowable, and charged to the appropriate state and Federal program.  A similar finding was reported last year as 2020-05.	
<b>Recommendations</b>	The auditors recommend management ensure program personnel are familiar with all grant requirements, including the requirements in the OMP Circular A-87 (Compensation for services). Management should develop procedures to ensure payroll expenditures charged to Federal awards are adequately supported. In addition, Management should promptly assign the payroll officer duties to other employees while recruitment for this position takes place.	
<b>Questioned Cost</b>	None	
<b>Current Status</b>	No final determination has been received from the Federal Awarding Agency.	

(3) **Corrective action taken is significantly different from corrective action previously reported:**

**NONE**

(4) **Audit findings is no longer valid:**

**NONE**

**END OF SCHEDULE**


Single Audit 2023

Independent Auditor's Report and Statement of Cash Receipts and Cash Disbursements  
Date CAP due to Compliance: Year Ended June 30, 2023

Following you will find the action plan to correct the findings and improve processes on Puerto Rico National Guard Single Audit Fiscal Year Ended 2023 :

Facility/Dept <b>Puerto Rico National Guard (PRNG)</b>	Main Contact <b>Mr. Angelo Aviles Cortijo</b>	Compliance Contact <b>Mrs. Rosa Barreto</b>
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FINDING NUMBER	COMPLIANCE SECTION	AUDITOR'S DESCRIPTION	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	DELIVERABLE	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
2023-002	Reporting	<p><b>Statement of Condition:</b> The PRNG reported total Federal expenditures of \$28,573,040 on the SEFA that was submitted with the year-end financial reporting package. Our tests revealed that the Federal expenditures reported were understated by \$1,184,709. The National Guard Military Operations and Maintenance (O&amp;M) Projects and the National Guard Youth Challenge Program indirect costs expenditures were not recorded in the PRNG accounting system by Assistance Listing Number or funding source; and therefore, not included on the original SEFA provided for audit purposes. Since the Federal expenditures are not readily identified in the accounting records, additional research was required to determine Federal expenditures. An updated and revised SEFA was submitted by PRNG containing corrections for errors as mentioned above.</p> <p><b>Perspective Information:</b> PRNG Management does not have an adequate internal control system to be able to identify on time and accurately report the expenditures incurred under the National Guard Military Operations and Maintenance (O&amp;M) Projects and the National Guard Youth Challenge programs. It was identified that the expenses incurred have not been identified in their accounting by Assistance Listing Number, so that they can generate a report with the expenses incurred and that these can be reconciled with their accounting records; this caused delays and errors in the amounts initially submitted to SEFA.</p> <p><b>Statement of Cause:</b> The primary cause for the difference was the method used by the PRNG to prepare the SEFA. PRNG failed to identify the Federal grants expended during the fiscal year and to keep records of the transactions related to the Federal programs to properly identify the Federal programs and transactions when the SEFA is prepared causing the preparation of an incomplete and misstated SEFA.</p> <p><b>Possible Asserted Effect:</b> PRNG may fail to include all Federal programs and total expenditures in the SEFA causing misstatements in the schedule. This situation may lead to errors in the determination if a Single Audit is required to PRNG and could provoke an incorrect major program determination performed by the auditor, resulting in the most likely exclusion of a major program for audit purpose.</p>	<p>We recommend PRNG to maintain adequate records related to the Federal programs to properly identify the Federal programs/transactions when the SEFA is prepared. In addition, PRNG must perform regular fiscal monitoring over the Federal programs transactions to provide reasonable assurance that all Federal programs/transactions are properly recorded and included in the SEFA.</p>	<p>In response to the audit finding related to the identification of the catalog number in our federal accounts, we will take the following actions:</p> <ul style="list-style-type: none"> <li>We will update our MIP Accounting System to ensure that the necessary adjustments are made to correctly identify the catalog number in all transactions related to federal accounts.</li> </ul>	Rosa Barreto, Finance and Budget Director	N/A	NO	June 30, 2024

Approved by:   
 Date: 3/21/2024  
 Mr. Angelo Aviles Cortijo