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**COMMONWEALTH OF PUERTO RICO**  
**STATE HISTORIC PRESERVATION OFFICE**

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**FINANCIAL STATEMENTS – CASH BASIS, REQUIRED  
SUPPLEMENTARY INFORMATION AND INDEPENDENT  
AUDITORS' REPORT  
(WITH THE ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE *GOVERNMENT*  
*AUDITING STANDARDS* AND THE *UNIFORM GUIDANCE*)**

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**For the Fiscal Year Ended June 30, 2020**

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P.O. Box 9023935, San Juan, Puerto Rico 00902-3935

Visit our website at [www.oech.gobierno.pr](http://www.oech.gobierno.pr)

Architect – Carlos A. Rubio Cancela, Executive Director

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

**To the Executive Director  
Commonwealth of Puerto Rico  
State Historic Preservation Office  
San Juan, Puerto Rico**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the **State Historic Preservation Office (Office)** which comprise Statements of Cash Receipts and Disbursements – Governmental Funds for the fiscal year ended June 30, 2020, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in **Note 1**, this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in these circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
General Fund	Unmodified
Special Revenue Fund	Unmodified
Historic Preservation Fund – Federal	Unmodified
CARES Act Fund	Unmodified
Business – Type Activities Enterprise Fund	Unmodified

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the **Office** for the year ended June 30, 2020, in conformity with the basis of accounting described in **Note 1**.

### Emphasis of Matters

#### *Uncertainty about Ability to Continue as a Going Concern – Primary Government*

The accompanying financial statements of the **Office** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 7** to the financial statements, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 7**. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

### Basis of Accounting

As described in **Note 1**, the **Office** prepares its financial statements on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as described in **Note 1**, the financial statements of the **Office** are intended to present the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **Office**.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **4** through **9** and **27** be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Other Matters (continued)**

We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Office's** financial statements. 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 page **29**, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the statements receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statements of receipts and disbursements or to the statements of receipts and disbursements 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 statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, on our consideration of **Office's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Office's** internal control over financial reporting and compliance.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 31, 2021

Stamp No. 2772671 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*  
Certified Public Accountants / Management Advisors

## INTRODUCTION

As management of the **State Historic Preservation Office (Office)**, we offer to the readers of this annual financial report our discussion and analysis of the **Office's** financial performance during the fiscal year ended June 30, 2020. The following discussion and analysis has been designed to accomplish the following goals:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the **Office's** financial activity;
- Identify any material deviations from the financial plan (the approved budget), and;
- Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the **Office's** financial statements.

## ORGANIZATION AND MISSION STATEMENT

The **Office** was created on August 20, 2000, the Governor of the Commonwealth of Puerto Rico signed a law to attach the Office to the Governor's **Office** and to consider the **Office** as an individual management entity in conformity to the disposition of Law Number 5 of October 14, 1975, as amended, to comply with and provide continuity to the projects of permanent betterments from the Legislature of Puerto Rico, the Governor of the Commonwealth of Puerto Rico and the Federal Government.

The **Office** provides the following services: administer state and federal assistance programs for the preservation of the Puerto Rico cultural resources, educate the public in preservation matters, restore and preserve several buildings in the historical sites of the Old San Juan and coordinate interagency activities related to special projects.

## FINANCIAL HIGHLIGHTS

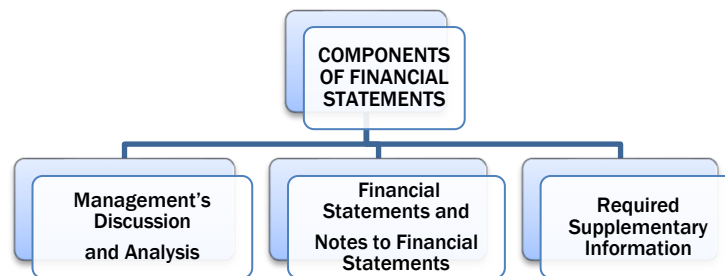
- In the **Office** Statement of Cash Receipts and Cash Disbursements – Governmental Fund Types, the actual cash disbursements exceeded actual cash receipts by \$519,897.
- The **Office** Statement of Cash Receipts and Cash Disbursements – Business Type Activities, the actual cash receipts exceeded actual cash disbursements by \$9,054.
- The General Fund (the primary operating fund) cash receipts amounted to \$1,040,000 and represents 60.98% of total cash receipts during the fiscal year. Also, cash disbursements of the General Fund amounted to \$1,039,703 and represents 46.72% of total cash disbursement for the fiscal year.
- During the fiscal year 2020, federal funds received amounted to \$665,504 and federal funds disbursements amounted to \$1,084,134.
- On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$297.

## FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the **Office** is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2019-2020. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance.

### Overview of the Financial Statements

The **Office’s** financial statements comprise three components: (1) management discussion and analysis, (2) financial statements, and (3) required supplementary information.



- **Financial Statements** -The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statements are not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of the Interior. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, one will need to consider other nonfinancial factors within any comprehensive analysis.

- **Notes to the Financial Statements** – Provides integral information needed to explain the basis for the numbers used within the Financial Statements and provide more detailed data.
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund.

## FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

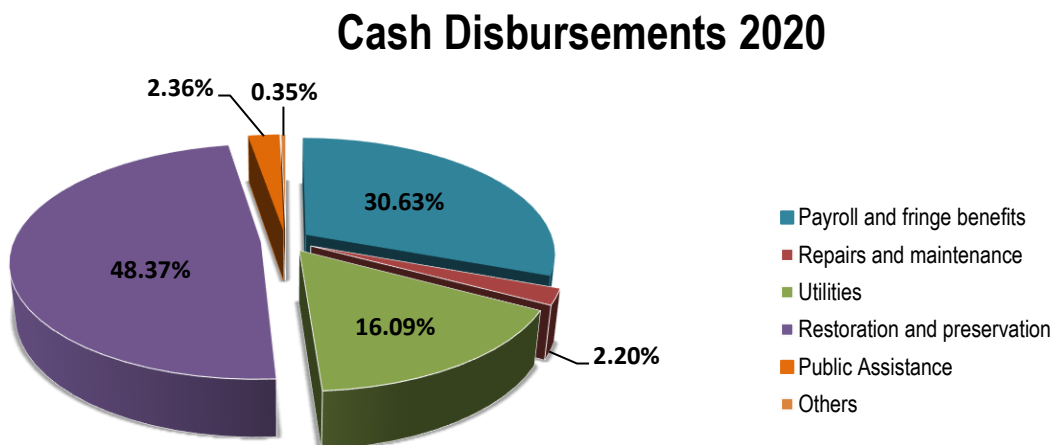
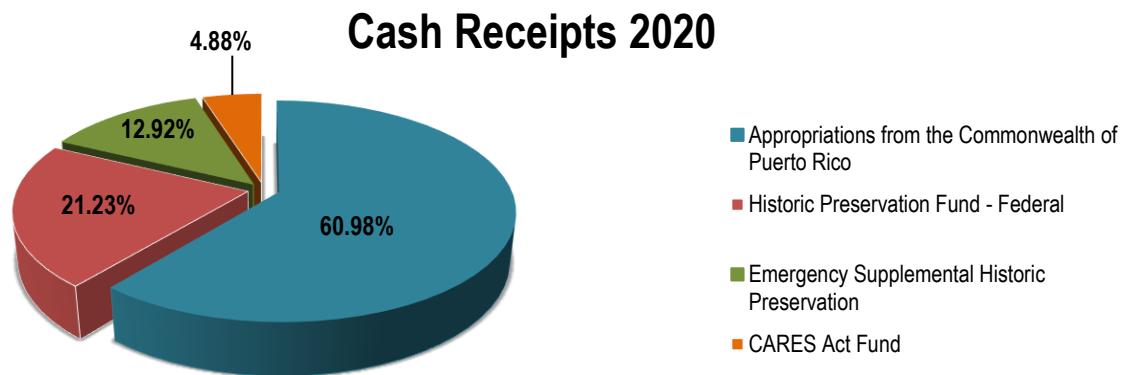
### Governmental Fund Financial Statements

The governmental fund financial statements focus on major funds. The **Office’s** major funds are the general fund (which accounts for the main operating activities of the **Office**), special revenue fund (which account for legislative resolution and insurance recovery) and federal funds (which account for historic preservation grant and disaster grants). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds. This year the **Office’s** funds were four (4) funds and the same were presented in the financial statements.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)

Governmental Fund Financial Statements (continued)

The following figures present how governmental activities of the **Office's** services were financed and distributed. These activities are primarily financed through state assignments, federal grants, charges for services and other revenues. The accounts of the **Office** are organized on three fund types: general fund, special revenue fund and federal funds. The **Office** maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the operations of the **Office** and appropriations granted for specific purposes, respectively. The measurement focus of the **Office's** governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending and determination of the excess (deficiency) of receipts over (under) cash disbursements, rather than upon net income determination. Such financial information is useful in assessing the **Office's** financing requirements.



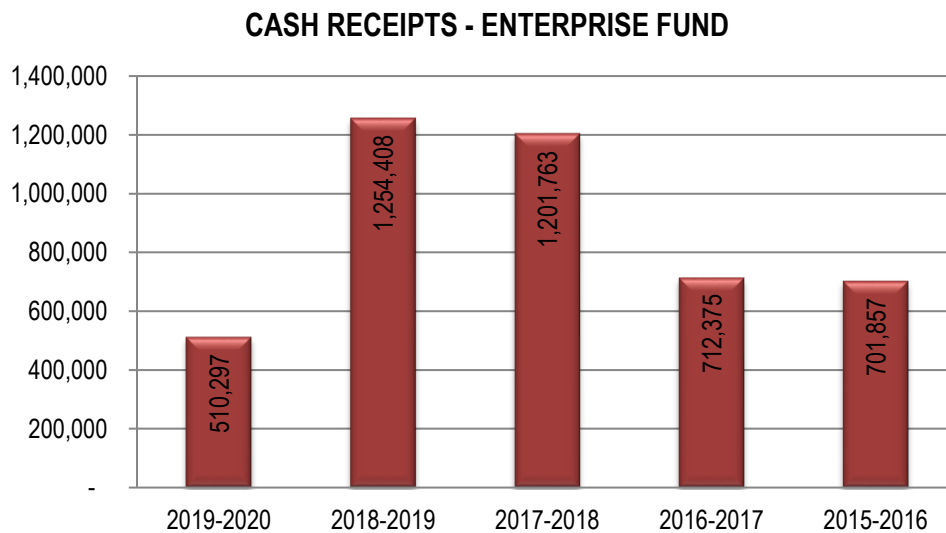


**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (CONTINUED)**

**Proprietary Fund – Business Type Activities – Enterprise Fund**

The Enterprise Fund is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The following figure provides information about the behavior of the **Office’s** Enterprise Fund during past five years. The **Office’s** Cash Receipts-Enterprise Fund increase in comparison with the previous fiscal years.



**GENERAL FUND BUDGETARY HIGHLIGHTS**

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **Office**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. On a budgetary basis, actual cash receipts exceeded actual cash disbursements by \$297.

**ECONOMIC FACTORS**

The Commonwealth of Puerto Rico (the Commonwealth) and its instrumentalities are currently facing a severe fiscal and liquidity crisis. This is the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Also, credit rating agencies have been downgrading their ratings on the Commonwealth debt obligations based on, among other problems, years of deficit financing, pension underfunding, budgetary imbalance, and as mentioned before, years of prolonged recession.

## ECONOMIC FACTORS (CONTINUED)

As more fully explained in **Note 7** to the financial statements, the Governments of the United States of America and the Commonwealth of Puerto Rico have approved and implemented certain laws to overcome this crisis. Following are some of the measurements implemented to this end:

- ***Effect of Commonwealth Fiscal Conditions***

The Commonwealth is currently facing a profound fiscal and economic crisis. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board under Title III of PROMESA, incorporating the automatic stay provisions of Bankruptcy Code section 362 and 922. As a covered entity, the Commonwealth was required to prepare and eventually revise its Fiscal Plan.

On September 27, 2019, the Financial Oversight and Management Board filed its proposed Plan of Adjustment to restructure \$35 million on debt and other claims against the Commonwealth to \$12 billion, the Public Building Authority, and the Employee Retirement System, and more than \$50 billion of pension liabilities. Combined with the restructuring of COFINA debt earlier this year, the Plan reduces the Commonwealth's annual debt service to just under 9% of own-source revenues, down from almost 30% of government revenues prior to PROMESA. However, as of the date these financial statements were issued, the Board was in an advance stage of negotiations to further reduce the debt because the Board recognized that the major disasters that have occurred since 2017, and the long-term effect of the pandemic require a much more conservative recovery plan.

The Financial Oversight and Management Board expects to approve a new Fiscal Plan approximately by late April 2021 that includes the effects of the pandemic in the overall economic outlook for the Island.

- ***Impact of COVID-19 Pandemic***

See also Note 8, on March 12, 2020, Governor Vázquez declared a state of emergency across the island due to the COVID-19 global pandemic. Furthermore, on March 15, 2020, the Governor signed an executive order (EO 2020-023), which established the closure of all private and government operations, except for those related to essential services. This order was extended through June 30, 2020, by the signing of a new executive order (EO 2020-44). Executive Order 2020-44 eased the COVID-19 lockdown restrictions, reduced the curfew hours, allowed some businesses to operate at 50% capacity, and authorized the opening of the majority of businesses and activities (except nightclubs, game rooms, and casinos) including on Sundays. The new order also called on government management employees to return to work on June 16, 2020.

The **Office's** operational and programmatic performance has been impacted due to resources constraints and challenges associated with social distancing and remote work policies put in place.

On April 9, 2020, NHTSA issued a Notice Announcing Waiver and Postponement of Certain Requirements for State Highway Safety Grant Programs, in order to relief States and jurisdictions from various grant requirements in response to the COVID 19 public health emergency.

On July 1, 2020, the **Office's** administrative and programmatic work was resumed as usual, following the protective measures established by the COVID 19 Contingency Plan issued by the **Office**.

## FINANCIAL CONTACT

The **Office's** financial statements are designed to present the readers with a general overview of the cash receipts and cash disbursements of the **Office**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico State Historic Preservation Office Executive Director, PO Box 9023935, San Juan, PR 00902-3935.

	General Fund	Special Revenue Fund	Historic Preservation Fund – Federal	Emergency Supplemental Historic Preservation Fund	CARES Act Fund	Total Governmental Funds
<b>CASH RECEIPTS</b>						
Appropriations from the Commonwealth of Puerto Rico	\$ 1,040,000	\$ -	\$ -	\$ -	\$ -	\$ 1,040,000
Federal Grants	-	-	362,002	220,291	83,211	665,504
<b>Total receipts</b>	<u>1,040,000</u>	<u>-</u>	<u>362,002</u>	<u>220,291</u>	<u>83,211</u>	<u>1,705,504</u>
<b>CASH DISBURSEMENTS</b>						
Payroll and fringe benefits	681,704	-	-	-	-	681,704
Repairs and replacements	-	49,055	-	-	-	49,055
Utilities	357,999	-	-	-	-	357,999
Restoration and preservation	-	-	646,806	429,608	-	1,076,414
Public Assistance	-	52,509	-	-	-	52,509
Others	-	-	-	-	7,720	7,720
<b>Total disbursements</b>	<u>1,039,703</u>	<u>101,564</u>	<u>646,806</u>	<u>429,608</u>	<u>7,720</u>	<u>2,225,401</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>\$ 297</u>	<u>\$ (101,564)</u>	<u>\$ (284,804)</u>	<u>\$ (209,317)</u>	<u>75,491</u>	<u>\$ (519,897)</u>

See accompanying notes to financial statements – cash basis

	<u>Business - Type Activities Enterprise Fund</u>
<b>CASH RECEIPTS:</b>	
Rent of property	<u>\$ 510,297</u>
<b>Total receipts</b>	<u>510,597</u>
<b>CASH DISBURSEMENTS:</b>	
Operations and maintenance	<u>501,243</u>
<b>Total disbursements</b>	<u>501,243</u>
Excess of cash receipts over (under) cash disbursements	<u>\$ 9,054</u>

See accompanying notes to financial statements – cash basis

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

On August 20, 2000, the Governor of the Commonwealth of Puerto Rico signed a law to attach the **State Historic Preservation Office (the Office)** to the Governor's Office and to consider the **Office** as an individual management entity in conformity to the disposition of Law Number 5 of October 14, 1975, as amended, to comply with and provide continuity to the projects of permanent betterments from the Legislature of Puerto Rico, the Governor of the Commonwealth of Puerto Rico and the Federal Government.

The **Office** provides the following services: administer state and federal assistance programs for the preservation of the Puerto Rico cultural resources, educate the public in preservation matters, restore and preserve several buildings in the historical sites of the Old San Juan and coordinate interagency activities related to special projects.

The main programs administered by the **Office** consist of:

1. **Historic Preservation Program** – The general objective of this Program is to expand and maintain a National Register of Historic Places composed of districts, sites, buildings, structures and objects significant in American History, architecture, archeology, engineering and culture. In addition, administer a program of matching-in-aid to the State for projects of survey and planning related to historic preservation purpose. Funds are awarded under the National Historic Preservation Act of 1966, Public Law 89-655.
2. **Construction, Restoration and Preservation Program** - The general objective of this program is to carry out certain construction, restoration, conservation and rehabilitation activities in the infrastructure comprised in the Special Plan of Interior Reform of the Office of San Juan Historic Zone located in the Ballajá Ward and in the Santa Catalina Palace.

### Financial Reporting Entity

The **Office** 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 of the Commonwealth of Puerto Rico serves as trustee of the funds assigned to the **Office** by the Legislative Branch and Federal Agencies. The Treasury Department of Puerto Rico, also handles and records expenditures made with such funds and provides the **Office** with reports regarding such activities.

The financial information included in the accompanying Statement of Cash Receipts and Cash Disbursements was obtained from the Puerto Rico Treasury Department's Integrated Financial Accounting System (PRIFAS) and is issued solely to comply with the 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 of America and for the information to the federal awarding agencies, pass-through entities, regulators, management and those charged with the governance.

### Measurement Focus and Basis of Accounting

The **Office's** accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles (GAAP) in the United

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

### Measurement Focus and Basis of Accounting (continued)

States of America, as established by the Governmental Accounting Standards Board (GASB). The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

The 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. This cash basis of accounting differs from GAAP primarily because revenue is recognized when received in cash rather than when earned and subject to accrual, and expenditures are recognized when paid rather than when incurred to subject to accrual.

These financial statements have been prepared pursuant to the provision of Law No. 230 of July 23, 1974, as amended, known as the “Puerto Rico Government Accounting Act”. This law establishes public policy with respect to the control of an accounting for public funds and property. The **Office** funds are, by law, under custody and control of the Secretary of Treasury in the PRIFAS accounting system.

Financial information of the **Office** is presented in this report as follow:

1. Management’s discussion and analysis – Introduces the financial statements and provides an analytical overview of the **Office** financial activities.
2. Financial Statements –The **Office** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statements are not intended to present the **Office** results of operations in accordance with accounting principles generally accepted in the United States of America.

The Statement of Cash Receipts and Cash Disbursements presents, within its cash receipts, the funds appropriated by the Commonwealth and the grants received from U.S. Department of the Interior. It also presents its cash disbursements by program. The difference between the cash receipts and cash disbursements is presented as an excess or deficiency for the year. All this combined provides the general financial information of the **Office**; however, one will need to consider other nonfinancial factors within any comprehensive analysis.

3. Notes to the Financial Statements – Provides integral information needed to explain the basis for the numbers used within the Financial Statements and provide more detailed data.
4. Required Supplementary information – Provides additional information to better understand the financial position of the **Office** and contains the Budgetary Comparison Schedule for the General Fund. Formal budgetary accounting is employed as a management control tool for all funds of the **Office**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed,

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Measurement Focus and Basis of Accounting (continued)**

it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

**Governmental fund types**

Governmental funds are those through which most governmental functions are financed. The acquisition uses and balances of the **Office** expendable financial resources and the related current liabilities are accounted for through governmental funds.

The measurement focus is upon determination of changes in financial position, rather than upon net income determination. Fund financial statements focus on information about the **Office** major governmental funds. Major individual governmental funds are reported as separately columns in the Combined Statement of Cash Receipts and Cash Disbursements on the cash basis of accounting.

The following are the **Office** major governmental fund types:

**General Fund** – This fund is the general operating fund of the **Office**. It is used to account for and report all financial resources, except for those required to be accounted for in another fund. It is presumed that the **Office's** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than general fund. Its revenue consist mainly of state appropriations.

**Special Revenue Fund** – This fund is used to account for and report revenue sources from state funds assignment by commonwealth legislature resolutions, recovery insurance and other special revenue funds that are not federal or operational funds.

**Historic Preservation Fund – Federal** – This fund is a major governmental fund used to account for and report the proceeds of revenues derived from the Department of the Interior, National Park Services, used to maintain a National Register of Historical Places, composed of districts, sites, buildings, structures and objects significant in American History, architecture, archeology, engineering and culture. In addition, administer a program of matching-in-aid to the State for projects of survey and planning related to historic preservation purpose. Funds are awarded under the National Historic Preservation Act of 1966, Public Law 89-655.

**Emergency Supplemental Historic Preservation Fund** – This fund is a major governmental fund used to account for and report the expenses related to the consequences of Hurricanes Irma and Maria. The use of federal funds to improve public buildings, to finance services or programs contained in public buildings, or alter any building or facility financed in whole or in part with Federal funds (except privately owned residential structures). The costs needed to administer the program; and cost for the preservation, stabilization, rehabilitation, and repair of historic properties that are listed in, or considered eligible for listing in, the National Register of Historic Places damaged by the above-named storms within such as areas.



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

### Governmental fund types (continued)

**CARES Act Fund** – This fund is used to account for and report revenue sources from the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) to cover costs arising from public health emergency, or its negative economic impacts. The CARES Act requires that the payments, only be used to cover expenses that: (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for in the budget most recently approved as of March 27, 2020 and (3) were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021.

### Proprietary fund type

The Enterprise Fund is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The **Office** Enterprise Fund cash receipts corresponded to the Rental of the Ballajá Ward facilities to private customers. Cash receipts are recognized when it is actually received by the **Office**. The measurement focus is upon determination of income, financial position and changes in cash flows. The **Office’s** Enterprise Fund is reported in a separate Statement of Cash Receipts and Cash Disbursements.

### Inventory purchases

The **Office** purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as a cash disbursement and, consequently, the inventory is not recorded in the financial statements.

### Property and equipment acquisitions

Property and equipment resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in Office’s financial statement.

### Interfund transactions

The **Office** has the following types of transactions among funds:

#### 1. Interfund transfers

Interfund transfers represent temporary loans between the funds.

#### 2. Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

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

### Compensated absences

The **Office** employees' are granted 15 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's vested annual leave is recorded as expenditure when utilized. No accrued compensated absences are reported in **Office's** financial statements. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

### Insurance

The **Office** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the **Office's** insurance coverage.

### Claims and judgments

The amount owed by the **Office** for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded when paid.

### Accounting for pension costs

The **Office** is unable to implement the requirements of **GASB Statement No. 73** "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68", since the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) has not provided certain information and assistance, necessary for its implementation applicable to measurement year ending on June 30, 2019. Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new "PayGo" model. Under the "PayGo" funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. "Paygo" payments are recorded as expenditures\expenses in the financial statements.

### Accounting for other postemployment benefits ("OPEB")

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2019 basic financial statements (measurement date), nor has it provided to the Municipality with the required information to implement the referred accounting pronouncement. The Municipality's contribution for OPEB is included as part of the "PayGo" charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT").

## 2. CASH WITH FISCAL AGENTS

### Department of the Treasury of the Commonwealth of Puerto Rico

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

### Custodial Credit Risk

Custodial Credit Risk this is the risk that, in the event of the failure of a depository financial institution, the **Office** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth, as amended, adopted by the **Office** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, or banker’s acceptance. Therefore, **Office**’s management has concluded that at June 30, 2020, the custodial credit risk associated with the **Office**’s cash and cash equivalents is considered low.

## 3. COMPENSATED ABSENCES

The employees of the **Office** are classified as either civil or members of the Department. All employees accrue regular vacation and sick leave at 1.25 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Legislature of the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually the accrued vacations and sick leave earned in excess of the limits mentioned above.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. Effective on that date, this Law established and recognizes that the government is a Single Employer. Under the provisions of this law annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days.

Also, the employees hire before the effectiveness of this law, will be granted annually with eighteen (18) days of sick leave. In addition, the employees hire after the effectiveness of this law, will be granted annually with twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

## 4. PENSION PLAN

### Retirement systems reform

Act No. 106 of August 23, 2017 (“Act 106”) was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS’s governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

#### 4. PENSION PLAN (CONTINUED)

##### **Determination of accrued pension benefits as of June 30, 2017 and payments**

Effective July 1, 2017, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS's assets,
- A pay-as-you-go ("PayGo") charge to the participant employers determined by ERS and billed by the P.R. Department of Treasury ("PRDT"),
- Commonwealth's legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth's Legislature.

On June 27, 2017, the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to additional uniform contributions were eliminated. Payments are made by the employers (the Agency) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. On July 20, 2017 ERS sold investments for approximately \$297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. During the fiscal year 2019-2020, the Agency was billed and recorded as PayGo expenditures the amount of \$140,706.

##### **Creation and transition to a new defined contribution plan**

**General** - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account.

#### 4. PENSION PLAN (CONTINUED)

##### **Creation and transition to a new defined contribution plan(continued)**

The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

*Participant accounts and contributions* - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan. During the fiscal year ended June 30, 2020, employees' contributions amounted to \$115,851.80.

##### **Creation and transition to a new defined contribution plan (continued)**

*Payment of benefits* - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

##### **Reform of ERS's governance and administration**

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

##### **Pension liabilities, pension expense, and deferred outflows/inflows of resources related to pensions; other required disclosures under GASB Statement No. 73**

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that do not meet the requirements of **GASB Statement No. 68** as of July 1, 2017. Instead, the employers may be subject to the requirements of **GASB Statement No. 73**, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".

#### 4. PENSION PLAN (CONTINUED)

**Pension liabilities, pension expense, and deferred outflows/inflows of resources related to pensions; other required disclosures under GASB Statement No. 73 (continued)**

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

Act No. 70 establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee's salary, as defined. In this early retirement benefit program, the **Office** will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service, who have at least 30 years of credited service and the age for retirement, or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years.

#### 5. TERMINATION BENEFITS

For eligible employees that choose the economic incentives and have at least 30 years of credited service and the age for retirement or have the age for retirement, the **Office** will make the employee and the employer's contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program of that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the **Office**. The total number of employees who were voluntary terminated was five (5). The **Office** contributed \$82,847 during fiscal year 2019-2020.

#### 6. COMMITMENTS AND CONTINGENCIES

The Commonwealth of Puerto Rico Law No. 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State provide that lawsuit initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employers, directors, mayors and others may be represented by the Department of Justice of the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and agencies of the defendants. No payments for asserted or unasserted claims, has been included in the accompanying financial statements.

**Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017**

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 "*The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)*" in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA); to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico; to provide that it



**6. COMMITMENTS AND CONTINGENCIES (CONTINUED)****Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017 (continued)**

shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA.

To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan. In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 "*Puerto Rico Financial Emergency and Fiscal Responsibility Act*" to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the "Moratorium Act") and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government's obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities.

## 6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017 (continued)

It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico.

The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law. In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year.

Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements



**6. COMMITMENTS AND CONTINGENCIES (CONTINUED)****Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017 (continued)**

established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

**Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico**

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico (“the Board”) provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor’s request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board’s members, economists, consultants, attorneys and Governor’s representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA’s requirements and recommended that certain revisions be made.

On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior proposed plan and, during the review process, further changes were incorporated into the Government’s proposed plan. On March 13, 2017, the Governor’s final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final proposed plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.
- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2017 of Act 29 “*Compliance with the Fiscal Plan Act*”. These measures are focused on four (4) major areas:

- Increase revenues by \$1,380 million through tax and fees increases and better tax fiscalization procedures.

## 6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### **Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank of Puerto Rico (continued)**

- Reduce expenditures by \$1,623 million through 1) \$434 million in payroll expenditure savings through the implementation of the “Single Employer Program” (an employee mobility plan), “freezing” of job vacancies and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) \$439 million in efficiency savings through agencies consolidations, expenditure reductions and public-private alliances; 3) \$750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities.
- Adjustments of \$299 million in Health expenditures through the implementation of a new public healthcare model.
- An 80% reduction on debt service payments.

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017.

This plan contemplates an orderly wind down of its operations within a three-to-four years’ period (by fiscal year 2021). To efficiently effectuate this process, the GDB’s management has created a Project Management Office (“PMO”) for the smooth transition of the Bank’s current operations. The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable.
- All fundamental new business banking and origination activities have ceased.
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions.
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value.
- Restructure the GDB’s workforce through the “Single Employer Program” and voluntary incentivized separation program.

### **Filing of Title III of PROMESA for the District of Puerto Rico**

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors.

The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation (“COFINA”), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority (“HTA”) and the Government of Puerto Rico Employees Retirement System (“ERS”).

## 7. GOING CONCERN – PRIMARY GOVERNMENT

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations.

Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and high health care, pension and debt service costs. As the Commonwealth's tax base has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have impacted significant portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like the **Office**, which is part of the Commonwealth. Considering that the **Office** is significantly dependent on the funds received from the Commonwealth to match the federal awards and comply with the levels of effort required by federal regulations, the limitation of the Commonwealth to meet its obligations on a timely manner, may have an effect on the **Office's** operations in the near term.

The following is a summary of relevant laws enacted and actions taken to address the Commonwealth's fiscal crisis:

On June 30, 2016, President Barack Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act (codified under 48 U.S.C. §§ 2101-2241) (PROMESA). In general terms, PROMESA seeks to provide the Commonwealth with fiscal and economic discipline through, among other things: (i) the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its related entities; (ii) a temporary stay of all creditor lawsuits; and (iii) two alternative methods to adjust unsustainable debt: (a) a voluntary debt modification process under Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (b) a bankruptcy-type proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (11 U.S.C. §§ 101, et seq.).

On January 18, 2017 (Act No. 2 of 2017), the Puerto Rico Fiscal Agency and Financial Advisory Authority Act, was enacted to expand FAFAA's powers and authority (as initially established under the Moratorium Act) so that FAFAA has the sole responsibility to negotiate, restructure, and reach agreements with creditors on all or part of the public debt or any other debt issued by any Commonwealth entity. FAFAA is also responsible for the collaboration, communication, and cooperation efforts between the Commonwealth and the Oversight Board under PROMESA. In addition, Act No. 2 of 2017 established FAFAA as the Commonwealth entity responsible for carrying out the roles inherited from the GDB along with additional duties and powers, which include, among other things: (i) oversight of the Commonwealth budget; (ii) an administrative presence on every board or committee where the GDB president is currently a member; (iii) authority to conduct audits and investigations; and (iv) authority to freeze budgetary items, appoint trustees, redistribute human resources, and change procedures.

On January 26, 2017 (Act No. 4 of 2017) introduced several human-capital and labor reforms to improve Puerto Rico's competitiveness and foster economic development, while relaxing legal requirements for hiring and retaining employees. Specifically, Act 4 No. of 2017 (i) established lower accrual rates for both vacation days and sick leave, (ii) approximately doubled work hours required for accrual of Christmas bonuses, (iii) placed a \$600 cap on Christmas bonuses, and (iv) reduced severance pay for unjust termination, among other reforms. On January 29, 2017 (Act No. 5 of 2017), the Puerto Rico Fiscal Responsibility and Financial Emergency Act, was enacted to maintain the moratorium on debt payment existing under the Moratorium Act; however, it allowed the Commonwealth to segregate funds that would eventually be used to fund the payment of public debt. Act No. 5 of 2017 states that the Governor may pay

## 7. GOING CONCERN – PRIMARY GOVERNMENT (CONTINUED)

debt service as long as the Commonwealth is able to continue to fund essential services, such as the health, safety, and well-being of the people of Puerto Rico, including providing for their education and assistance to residents.

Act No. 5 of 2017 continued to declare the Commonwealth to be in a state of emergency and increased the Governor's powers to manage the Commonwealth's finances. The emergency period under Act No. 5 of 2017 was set to expire on May 1, 2017 to coincide with the expiration of the Title IV Stay (as discussed above), unless extended by an additional three months by executive order. On April 30, 2017, the Governor issued executive order OE-2017-031, which extended to the Act No. 5 of 2017 emergency period to August 1, 2017. On July 19, 2017, the Legislature enacted Act No. 46 of 2017, which further extended the Act No. 5 of 2017 emergency period through December 31, 2017. Act No. 46 of 2017 allowed the Governor to sign executive orders to extend the emergency period for successive periods of six months as long as the Oversight Board remains established for Puerto Rico under PROMESA.

On February 4, 2017 (Act No. 8 of 2017), known as the Single Employer Act, was enacted to merge public agencies to establish the government as a single employer. This legislation is designed to facilitate employee transfers between the Commonwealth's 118 agencies, which prior to the enactment of Act No. 8 of 2017, these agencies operated as separate employers, with different administrative divisions and wages for the same occupations.

On February 8, 2017 (Act No. 9 of 2017) and Act No. 14 of February 21, 2017 (Act No. 14 of 2017) introduced a series of tax amendments to provide incentives to professionals to stay in Puerto Rico by promoting and facilitating the creation and management of retirement plans and other trusts to promote financial stability and job creation.

On April 29, 2017 (Act No. 26 of 2017), known as the Fiscal Plan Compliance Act, introduced a series of changes and freezes to existing public employees' labor bargaining agreements, reductions and eliminations to previously granted public employee benefits, and other fiscal control measures geared toward compliance with the government expenditures cuts and savings.

## 8. SUBSEQUENT EVENTS

On March 15, 2020, the Governor of Puerto Rico, issued an Executive Order to facilitate the private and public closings necessary to combat the effects of the coronavirus (COVID-19) and control the risk of contagion within Puerto Rico. This Executive Order required the implementation of a curfew and shutdown of non-essential commercial activity. Further, on March 19, 2020, the OMB issued the memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations, which provided administrative remedies for entities impacted by COVID-19. Among other remedies, provides for awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 - Audit Requirements, to six (6) months beyond the normal due date.

Subsequent events were evaluated through March 31, 2021, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements, except as noted in the above paragraph.

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>CASH RECEIPTS</b>				
Appropriations from the Commonwealth of Puerto Rico:	\$ 1,413,000	\$ 1,165,000	\$ 1,040,000	\$ (125,000)
<b>Total cash receipts</b>	<u>1,413,000</u>	<u>1,165,000</u>	<u>1,040,000</u>	<u>(125,000)</u>
<b>CASH DISBURSEMENTS AND ENCUMBRANCES</b>				
Payroll and fringe benefits	924,000	726,000	681,704	44,296
Facilities and public services	358,000	358,000	357,999	1
Utilities	131,000	81,000	-	81,000
<b>Total cash disbursements and Encumbrances</b>	<u>1,413,000</u>	<u>1,165,000</u>	<u>1,039,703</u>	<u>125,297</u>
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297</u>	<u>\$ 297</u>

See notes to Budgetary Comparison Schedule.

## 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. 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 2018-2019 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, *Puerto Rico Oversight, Management and Economic Stability Act* (PROMESA).

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Commonwealth of Puerto Rico for recurrent and ordinary functions of Office. The procedures followed in approving the annual budget is as follows:

1. Between November and December **Office** submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
2. At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
3. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Commonwealth has the authority to make the necessary adjustments to the budget.
4. Beginning with fiscal year 2019-2020 the budget procedure to be used for the confection of the budget must be the methodology of Zero-Base budgeting.

The financial statement is presented at the programmatic level. However, budgetary control and accounting are maintained at a level more detailed to provide the management control in detail of the expenses to the appropriate level of the budget.

The budget is adopted in accordance with a budgetary basis of accounting which differs from USGAAP. The Commonwealth of Puerto Rico Department of Treasury and the Office of Management and Budget have the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the PRIFAS Accounting System.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>U.S. DEPARTMENT OF THE INTERIOR:</b>				
Direct Program:				
National Park Service		P19AP00140	\$ -	\$ 360,566
Historic Preservation Fund Grants – In Aid	15.904	P18AF00131	-	237,539
		P17AF00096	-	48,701
Emergency Supplemental Historic Preservation Fund	15.597	P19AP00010	-	429,608
<b>Total U.S. Department of the Interior</b>			<b>-</b>	<b>1,076,414</b>
<b>U.S. DEPARTMENT OF THE TREASURY:</b>				
Pass-through from Commonwealth of Puerto Rico Governor’s Office of Management and Budget				
COVID-19 Coronavirus Aid, Relief, and Economic Security (CARES) Act	21.019	Not available	-	7,720
<b>Total U.S. Department of the Treasury</b>			<b>-</b>	<b>7,720</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ -</b>	<b>\$ 1,084,134</b>

See Notes to Schedule of Expenditures of Federal Awards.



## GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **State Historic Preservation Office (Office)** from all federal programs for the year ended June 30, 2020. The **Office's** reporting entity is defined in **Note 1** to the financial statements.

## BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some of the amounts presented in the Schedule may differ from the amounts presented in, or used in the presentation of, the financial statements. Because the Schedule presents only a selected portion of the operations of the **Office**, it is not intended to and does not present the financial position and changes in net position of the **Office**.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the cash basis of accounting. 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. Expenditures for Public Assistance Grants (FEMA) are recognized in the period under: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence. State or local government redistributions of federal awards to the **Office**, known as "pass-through awards", should be treated by the Agency as though they were received directly from the federal government. The Uniform Guidance requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

## RECONCILIATION TO FINANCIAL STATEMENTS

Information reported in the accompanying Schedule of Expenditures of Federal Awards agreed with or has being reconciled to the information reported in the **Office's** financial statements.

## INDIRECT COST RATE

The **Office** has elected not use the 10% de minimis cost rate, and did not charge indirect cost to federal grants during the year ended June 30, 2020.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

**To the Executive Director  
Commonwealth of Puerto Rico  
State Historic Preservation Office  
San Juan, Puerto Rico**

We have audited, 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 of America, the financial statements – cash basis of the governmental activities, each major fund of the **State Historic Preservation Office (the Office)**, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the **Office's** financial statements as listed in the table of contents, and have issued our report thereon dated March 31, 2021.

*Uncertainty about Ability to Continue as a Going Concern – Primary Government*

The accompanying financial statements of the **Office** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 7** to the financial statements, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 7**. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency*, is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item **2020-001** that we consider to be significant deficiencies.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Office's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2020-001**.

**State Historic Preservation Office's Response to Findings**

**State Historic Preservation Office's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **State Historic Preservation Office's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 31, 2021

Stamp No. 2772672 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

To the Executive Director  
Commonwealth of Puerto Rico  
State Historic Preservation Office  
San Juan, Puerto Rico

### Report on Compliance for Each Major Federal Program

We have audited the **State Historic Preservation Office (Office)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Office's** major federal programs for the year ended June 30, 2020. The **Office's** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditors' Responsibility

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

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

### Opinion on Each Major Federal Programs

In our opinion, the **Office** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)**

**Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.*

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness.

**Purpose of this Report**

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



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico

March 31, 2021

Stamp No. 2772673 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:

<b><u>Opinion Unit</u></b>	<b><u>Type of Opinion</u></b>
General Fund	Unmodified
Special Revenue Fund	Unmodified
Historic Preservation Fund – Federal	Unmodified
CARES Act Fund	Unmodified
Business – Type Activities Enterprise Fund	Unmodified

Internal control over financial reporting:

Material weakness identified? Yes  No

Significant deficiencies identified not considered to be material weaknesses? Yes  None reported

Noncompliance material to financial statements noted? Yes  No

**Federal awards**

Internal Control over major programs:

Material weakness (es) identified? Yes  No

Significant deficiency (ies)? Yes  No

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a) of the Uniform Guidance? Yes  No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.957	Emergency Supplemental Historic Preservation Fund

Dollar threshold used to distinguish between Type A and Type B programs **\$750,000**

Auditee qualified as low-risk auditee? Yes  No

**Section II – Financial Statements Findings**

**Finding Reference**                      **2020-001**

**Requirement**                                      **Office Materials Warehouse Operations- Subsidiary Ledger**

**Type of finding:**                                      **Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)**

*This findings is similar to prior-year finding(s) 2019-001.*

**Statement of Condition**                      During our audit, we noted the following exceptions:

- a. The **Office** management has not followed with the procedures established to realize a perpetual inventory. The writing policies of the minimum and maximum levels of the material have not been followed either.
- b. A perpetual inventory register was not maintained by a person not related with the operations of the warehouse.
- c. A physical inventory duly documented and approved was not performed.

**Criteria**    Law Number 230 of July 23, 1974, as amended states that it's an obligation of the heads of Departments the responsibility for legality, exactitude, property, necessity and correction of all the expenses.

The **Office** Regulation manual approved in June 1, 1992, (internal procedure for receiving, record, safeguard and dispatch the materials and provisions of the warehouse of the Division) states material warehouse procedures to be maintain by the agency.

**Cause of Condition**                                      The **Office** did not maintain the controls and procedures established to assure that all transactions realized by the **Office** are supported by the required documentation and that exist adequate historical records and an adequate perpetual inventory.

**Effect of Condition**                                      The **Office** did not comply in these cases with the Law 230 and the procedures manuals approved by related to the materials warehouse management.

**Recommendation**                                      We recommend the management to assure that adequate control procedure exists for the Materials Warehouse Operations as follows:

- There must be a responsible employee in Administration not related to the warehouse operations which must be assigned to maintain a perpetual inventory. That report must be detailed chronologically by date and by category, detailing additions and retirements of materials from the warehouse. In additions, control sheets duly signed by the employees who received the materials must be documented.

**Section II – Financial Statements Findings**

**Finding Reference**                      **2020-001 (continued)**

**Recommendation**                      *(continued)*

- The management must establish writing procedures for take the physical inventory of the materials maintained in the warehouse.
- A physical inventory must be taking periodically documenting all procedures performed at the moment in which the inventory was taken. There must be a memorandum detailing the date, the employees involved in the procedures, who supervised the procedures, and a detail of the inventory by unit duly reconcile with the perpetual inventory. Differences founded must be duly explained and documented.

**Questioned Costs**                      None

**Section III – Major Federal Award Program Findings and Questioned Costs**

There were no findings noted during the fiscal year ended June 30, 2020.



Audit Report: Reports on Compliance and Internal Control 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

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Statement of Concurrence or Nonconcurrence	Corrective Action
2020-001	We concur with the finding.	<p>The Office Management concurs with the finding. The Office's Property Department staff plans to continue its efforts in order to update the Materials Warehouse Subsidiary Ledger.</p> <p>Implementation Date: Fiscal year 2020-2021</p> <p>Responsible Person: Mr. Luis Rivera Materials Warehouse Officer</p>

I Certify that the information above is Correct

  
\_\_\_\_\_

March 31, 2021  
Date

Audit Report: Reports on Compliance and Internal Control 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*

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2018-001	Office Materials Warehouse Operations - Subsidiary Ledger	<p>During our audit, we noted the following exceptions:</p> <p>a. The <b>Office</b> management has not followed with the procedures established to perform a perpetual inventory. The written policies of the minimum and maximum levels of the material have not been followed either.</p> <p>b. A perpetual inventory register was not maintained by a person not related with the operations of the warehouse.</p> <p>c. A physical inventory duly documented and approved was not performed.</p>	The Office's Property Department staff plans to continue its efforts in order to update the subsidiary ledger.	None	No corrective action was taken. See current year finding number 2020-001.

Audit Report: Reports on Compliance and Internal Control 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*

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
2018-002	Fixed – Capital Assets and Expenditures – Subsidiary Ledger and Additions	During our audit, we noted the following exceptions: a. The <b>Office</b> did not obtain evidence of the physical inventory documentation duly supervised by a functionary not involved in the day to day operations of the area. The property must be reconciled with records at least once every year. b. The Property ledger did not detail the equipment trademark, disposition date (If apply) and the reparations performed to the property and equipment.	Fully corrected	None	Fully correction was taken.
2018-003	Fixed – Capital Assets and Expenditures – Subsidiary Ledger and Additions	During our audit, we noted the following exceptions: a. The <b>Office</b> did not obtain evidence of the physical inventory documentation duly supervised by a functionary not involved in the day to day operations of the area. The property must be reconciled with	Fully corrected	None	Fully correction was taken.

Audit Report: Reports on Compliance and Internal Control 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*

Audit Period: July 1, 2019 – June 30, 2020

Fiscal Year: 2019-2020

Principal Executive: Carlos A. Rubio Cancela, Executive Director

Contact Person: Vilmarie Collazo Alicea, Finance Officer

Phone: (787) 721-3737

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Costs	Status
		records at least once every year. b. The Property ledger did not detail the equipment trademark, disposition date (If apply) and the reparations performed to the property and equipment.			
2018-004	Single Audit Act	The Single Audit Report for the fiscal year ended June 30, 2018 was not issued within nine (9) months after the end of the audit period. significant deficiencies	Fully corrected	None	Fully correction was taken.

I Certify that the information above is Correct



March 31, 2021  
Date