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**COMMONWEALTH OF PUERTO RICO**

**BUREAU OF FIREFIGHTERS CORPS  
OF THE PUERTO RICO PUBLIC  
SAFETY DEPARTMENT**

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

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**For the Fiscal Year Ended June 30, 2019**

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**Bureau of Firefighters Corps  
of the Public Safety Department  
P.O. Box 13325  
San Juan, P.R. 00908-3325**

## CONTENTS

	<b>Pages</b>
<b><u>FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-3
Supplementary Information (Part I): Management's Discussion and Analysis	4-9
Financial Statements – Cash Basis: Combined Statement of Governmental Activities - Cash Basis	10
Combined Statement of Cash Receipts and Cash Disbursements- Governmental Funds	11
Notes to Financial Statements - Cash Basis	12-20
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Supplementary Information (Part II):	
Budgetary Comparison Schedule - General Fund	21
Notes to Budgetary Comparison Schedule - General Fund	22
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards	24

**CONTENTS (CONTINUED)**

	<b>Pages</b>
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
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 <i>Government Auditing Standards</i>	25-26
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	27-29
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of Findings and Questioned Costs	30-32
Schedule of Prior Years Audit Findings	33



*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**

**Bureau of Firefighters Corps of the  
Puerto Rico Public Safety Department  
San Juan, Puerto Rico**

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

We have audited the accompanying cash basis financial statements of the **Bureau of Firefighters Corps of the Puerto Rico Public Safety Department (the BFC)** as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **BFC's** financial statements as listed in the table of contents.

### **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 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)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the governmental activities, each major fund, and the aggregate remaining fund information of the **BFC** for the year ended June 30, 2019, in conformity with the basis of accounting described in **Note 1**.

### Basis of Accounting

As described in **Note 1**, the **BFC** 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 **BFC** 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 **BFC**.

### Emphasis of Matters

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

The **BFC** is part of the Public Safety Department of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statements of the **BFC** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 8** to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 8**. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

### Other Matters

#### *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 **21** 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. 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Other Matters (Continued)**

#### *Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **BFC'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 **23**, 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 statement 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 statement of receipts and disbursements or to the statement 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 February 20, 2020, on our consideration of **BFC'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 **BFC's** internal control over financial reporting and compliance.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico

February 20, 2020

Stamp No. 2758877 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 **Bureau of Firefighters Corps of the Puerto Rico Public Safety Department (BFC)**, we offer to the readers of this annual financial report our discussion and analysis of the **BFC's** financial performance during the fiscal year ended June 30, 2019. 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 **BFC'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 **BFC's** financial statements.

## ORGANIZATION AND MISSION STATEMENT

On April 10, 2017, the Act Number 10 was approved to establish the Public Safety Department of Puerto Rico (PSD), in order to create a new system composed of all the components that administer public security in Puerto Rico. The Public Safety Department is integrated by the following Bureaus: Puerto Rico Police; Firefighters Corps (**BFC**); Forensic Sciences Institute; Medical Emergencies Corps; State Agency for Emergency and Disaster Management; Special Investigation; and 9-1-1 Service. The **BFC** is the successor of the **Puerto Rico Fire Department**, which was created by Law No. 43 of June 21, 1988 the purpose of prevent and fight fires, save lives, assure the adequate protection of the general public against fire, and to determine, once the incident occurred, the origin and cause of the fire. Accordingly, the **BFC** also has the following programs:

- **Fire Prevention and Extinguishing Fires Training Techniques** - This program is responsible for training all the members of the Firefighters Corps in the most advanced techniques of preventing and extinguishing of fires, rescue, first aid and medical assistance. It also organizes and trains: brigades, groups of volunteer firemen, and officials of the public and private sector in fire prevention extinguishing fires and rescue.
- **Fire Prevention and Education** - Development and implementation of measures directed at eradicating the risk of fire and educating the community.
- **Extinguishing and Controlling Fires** - Offers the following services: putting out fire, rescue in situations of emergency and disasters, protection in cases of natural disaster, and coordination with other agencies. Attends emergency calls in situations of fires, disasters and spills of dangerous materials. Is responsible for rapidly and efficiently, eradicating all types of fires, controlling its propagation and rescuing lives and properties. Assists the Prevention of Fires Program in functions of preventive nature, such as the education of young students (the Little Firemen Program) and offers orientation services to the community. It also is dedicated to the inspection and eradication of fire risks, as well as the investigation for determining origin and cause. Provides support to other government agencies, when deployed to attend to emergencies or simulations.
- **9-1-1 Emergency Service/Child Abuse Line** - Establishes a universal 9-1-1 telephone number for emergencies throughout Puerto Rico. The 9-1-1 code replaces the emergency numbers traditionally used and provides the Puerto Rican people with a uniform, easy to identify, access and dial number.

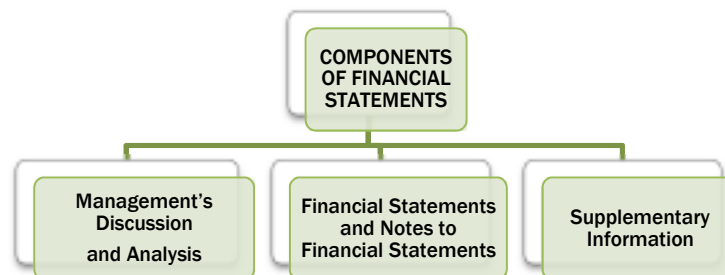
## FINANCIAL HIGHLIGHTS

- In the **BFC** Combined Statement of Governmental Activities, the actual cash receipts exceeded actual cash disbursements by \$7,049,640.
- The General Fund (the primary operating fund) cash receipts amounted to \$55,059,552 and represents 83.84% of total cash receipts during the fiscal year 2019. Also, cash disbursements of the General Fund amounted to \$55,059,552 and represents 93.93% of total cash disbursement for the current fiscal year.
- The Other Governmental Funds cash receipts amounted to \$9,380,887 and represents 14.28% of total cash receipts during the fiscal year 2019. Also, cash disbursements of the Other Governmental Funds amounted to \$2,440,377 and represents 4.16% of total cash disbursement for the current fiscal year.
- During the fiscal year 2019, federal funds received amounted to \$1,229,457 and federal funds disbursements amounted to \$1,120,327.
- On a budgetary basis, actual cash receipts amounted to \$55,059,552 and actual cash disbursements amounted to \$55,059,552.

## FINANCIAL STATEMENTS PRESENTATION

### Overview of the Financial Statements

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



- **Financial Statements** -The **BFC** 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 **BFC** results of operations in accordance with accounting principles generally accepted in the United States of America.



## FINANCIAL STATEMENTS PRESENTATION (Continued)

### Overview of the Financial Statements (Continued)

The Combined Statement of Governmental Activities is presented in the cash basis, which presents 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 **BFC**. The Financial Statements also includes notes to the Combined Statement of Governmental Activities – Cash Basis section that explains some information in the financial statements and provides more detailed data.

The Combined Statement of Cash Receipts and Cash Disbursements for all Governmental Funds provide detailed information about the **BFC** most significant funds, not the **BFC** as a whole.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Combined Statement of Governmental Activities.

The Combined Statements of Cash Receipts and Cash Disbursements – Governmental Funds presents, within its cash receipts, the funds appropriated by the Commonwealth of Puerto Rico and the grants received from the Federal Government. 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 **BFC**; 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.
- **Supplementary information** – Provides additional information to better understand the financial position of the **BFC** and contains the Budgetary Comparison Schedule for the General Fund.

## FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

### Combined Statement of Governmental Activities – Cash Basis

The **BFC's** total cash receipts amounted to \$65,669,896 during fiscal year ended June 30, 2019. Approximately 83.84% of **BFC's** total cash receipts came from state-general fund assignments and legislative appropriations, while \$1,229,457 or 1.87% resulted from federal grants. The receipts derived from charges for service and other income amounted to \$9,380,887 and represent 14.28% of the **BFC's** total cash receipts. The **BFC's** disbursements cover a range of services.

The following table includes a comparative analysis for readers to have comparative information with the percentage of change in cash receipts and disbursements from prior year to current year.

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

**Combined Statement of Governmental Activities – Cash Basis (Continued)**

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Program cash receipts:			
Legislative appropriations	\$ 55,059,552	\$ 54,812,534	\$ 247,018
Federal programs	1,229,457	3,641,977	(2,412,520)
Charges for services	4,623,565	3,893,764	729,801
Other income	<u>4,757,322</u>	<u>34,425</u>	<u>4,722,897</u>
Total cash receipts	<u>65,669,896</u>	<u>62,382,700</u>	<u>3,287,196</u>
Program cash disbursements:			
Payroll and fringe benefits	52,738,349	56,984,353	(4,246,004)
Professional services	15,704	12,893	2,811
Rent	65,074	84,777	(19,703)
Repairs and maintenance	143,670	148,266	(4,596)
Materials	730,172	682,016	48,156
Utilities	1,649,311	3,257,768	(1,608,457)
Equipment	3,037,846	2,878,431	159,415
Other expenses	<u>240,130</u>	<u>197,046</u>	<u>43,084</u>
Total cash disbursements	<u>58,620,256</u>	<u>64,245,550</u>	<u>(5,625,294)</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>\$ 7,049,640</u>	<u>\$ (1,862,850)</u>	<u>\$ 8,912,490</u>

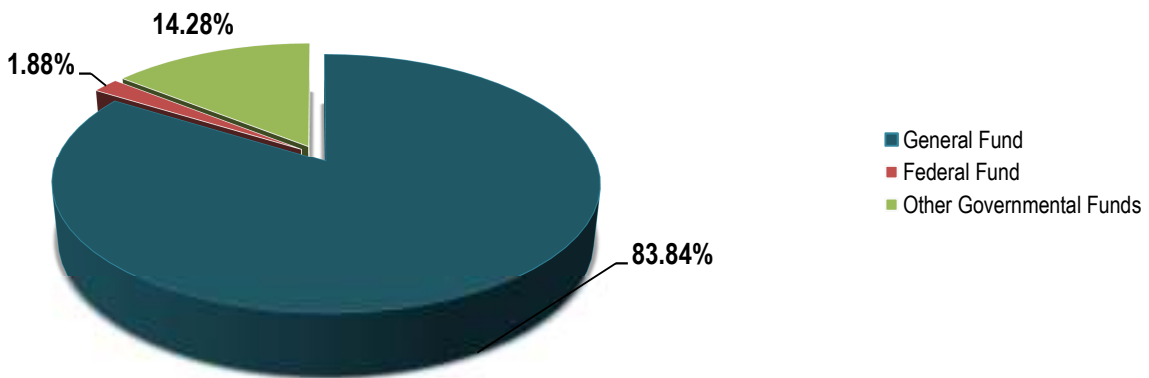
**Governmental Fund Financial Statements**

The governmental fund financial statements focus on major funds. The **BFC's** major funds are the general fund (which accounts for the main operating activities of the **BFC**), federal fund (which account for all grants received from the federal programs) and other governmental funds (which account for other legislative resolutions, fees and charges for services and other income). The **BFC's** Combined Statement of Cash Receipts and Cash Disbursements Governmental Funds – cash Basis for fiscal year ended June 30, 2019, presented those three major funds.

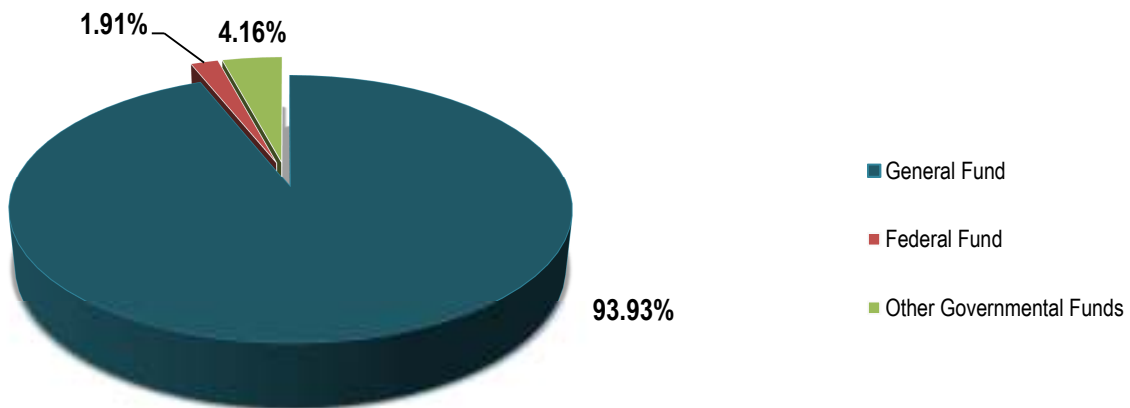
**FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (Continued)**

The following figures present how governmental activities of the **BFC's** basic 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 **BFC** are organized on three fund types: general fund, federal fund and other governmental funds. The **BFC** 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 **BFC** and appropriations granted for specific purposes, respectively. The measurement focus of the **BFC'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 **BFC's** financing requirements.

**Cash Receipts 2019**



**Cash Disbursements 2019**



## GENERAL FUND BUDGETARY HIGHLIGHTS

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **BFC**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. The approved final budget for fiscal year 2018-2019 amounted to \$55,104,487. On a budgetary basis, actual cash receipts amounted to \$55,059,552 and cash disbursements amounted to \$55,059,552.

## 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.

As more fully explained in **Notes 7** and **8** 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***

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.

## FINANCIAL CONTACT

The **BFC's** financial statements are designed to present the readers with a general overview of the cash receipts and cash disbursements of the **BFC**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Fire Department, PO Box 13325, San Juan, and P.R. 00908-3325.

**Program cash disbursements:**

Payroll and other fringes benefits	\$ 52,738,349
Professional services	15,704
Rent	65,074
Repairs and maintenance	143,670
Materials	730,172
Utilities	1,649,311
Equipment	3,037,846
Other expenses	240,130
	<hr/>
Total program cash disbursements	<u>58,620,256</u>

**Program cash receipts:**

Legislature appropriations	55,059,552
Federal programs	1,229,457
Charges for services	4,623,565
Other revenues	4,757,322
	<hr/>
Total program cash receipts	<u>65,669,896</u>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<u><u>\$ 7,049,640</u></u>

See accompanying notes to the financial statements – cash basis.

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Cash Receipts:</b>				
Legislative appropriations	\$ 55,059,552	\$ -	\$ -	\$ 55,059,552
Federal appropriation	-	1,229,457	-	1,229,457
Changes for services	-	-	4,623,565	4,623,565
Other Income	-	-	4,757,322	4,757,322
	<u>55,059,552</u>	<u>1,229,457</u>	<u>9,380,887</u>	<u>65,669,896</u>
<b>Cash Disbursements:</b>				
Payroll and other fringes benefits	52,244,317	447,747	46,285	52,738,349
Professional services	-	1,669	14,035	15,704
Rent	-	-	65,074	65,074
Repairs and maintenance	22,405	3,500	117,765	143,670
Materials	-	65,314	664,858	730,172
Utilities	726,300	-	923,011	1,649,311
Equipment	2,066,530	600,437	370,879	3,037,846
Other expenses	-	1,660	238,470	240,130
	<u>55,059,552</u>	<u>1,120,327</u>	<u>2,440,377</u>	<u>58,620,256</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -</u>	<u>\$ 109,130</u>	<u>\$ 6,940,510</u>	<u>\$ 7,049,640</u>

See accompanying notes to the financial statements – cash basis.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

On April 10, 2017, the Act Number 10 was approved to establish the Puerto Rico Public Safety Department (**PSD**), in order to create a new system composed of all the components that administer public security in Puerto Rico. The Public Safety Department will be integrated by the following Bureaus: Puerto Rico Police; Firefighters Corps (**BFC**); Forensic Sciences Institute; Medical Emergencies Corps; State Agency for Emergency and Disaster Management; Special Investigation; and 9-1-1 Service.

The **BFC** is the successor of the **Puerto Rico Fire Department (PRFD)** which was a governmental organization created by Law No. 43 of June 21, 1988 for the purpose of prevent and fight fires, save lives, assure the adequate protection of the general public against fire, and to determine, once the incident occurred, the origin and cause of the fire.

### Basis of presentation and Reporting Entity

The accounts of the **BFC** are organized on the basis of the three fund types: general fund, federal fund, and others governmental funds. The **BFC** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **BFC** and appropriations granted for specific purposes, respectively. As more fully explained in the section "Basis of Accounting" below, each fund is accounted for with a set of accounts which include only receipts and disbursements.

No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **BFC** from programs funded by the Federal Government. The individual funds included in these fund type are classified accordance with their cost category.

The **BFC** is for financial reporting purposes, part of the Puerto Rico Public Safety Department. Because the **BFC** is for financial reporting purposes, part of the **PSD**, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. **BFC** accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of **BFC**'s management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

### Basis of accounting

The **BFC** follows a receipts and disbursements method of accounting to account for all funds administered under this method, cash or funds transfer-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Receipts and Disbursements is not intended to present the **BFC's** results of operations in accordance with generally accepted accounting principles in the United States of America.

### Budgetary accounting

Formal budgetary accounting is employed as a management control tool for all funds of the **BFC**. 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; 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.

### Excess (deficiency) statement line

The excess (deficiency) of receipts over (under) disbursement statement lines represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these lines are not comparable to an excess or deficiency over funds assigned and not represent a deficit of the **BFC**.

## 2. FEDERAL FUNDS TRANSACTIONS

The excess of receipts over disbursements of \$109,130 presented on the Statement of Receipts and Disbursements for the Federal Fund column is related to cash received and accounted for during fiscal year 2018-2019, but the disbursements were made and accounted in the federal fund accounts during the fiscal year ended June 30, 2018.

## 3. PENSION PLAN

### **Plan General Description and Retirement System Reform**

The **BFC** is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems.



### 3. PENSION PLAN (CONTINUED)

#### Plan General Description and Retirement System Reform (Continued)

Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 (“Act 447”) effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 (“Act 1”) for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 30, 2013.

Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employer defined benefit plan. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. Contributions are maintained by each participant in individual accounts.

Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

The Commonwealth has already taken critical steps towards a comprehensive reform of the ERS. On September 30, 2016, the ERS was designated by the Oversight Board as a “covered instrumentality” pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth’s fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017.

As a result of the ERS’s severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the “District Court”).

### 3. PENSION PLAN (CONTINUED)

#### Plan General Description and Retirement System Reform (Continued)

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, effective on July 1, 2017. Those dispositions are summarized as follows:

#### 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 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 special laws and additional uniform contributions are eliminated. Payments are made by the employers (the **BFC**) 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.

### 3. PENSION PLAN (CONTINUED)

#### Plan General Description and Retirement System Reform (Continued)

##### Determination of accrued pension benefits as of June 30, 2017 and payments (Continued)

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2018-2019 the **BFC's** PayGo charges recognized by the plan amounted to \$13,832,000.

##### 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. 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, 2019, employees' contributions amounted to \$3,382,591.

**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

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.

#### 4. COMPENSATED ABSENCES

The employees of the **BFC** are classified as either civil or members of the Department. All employees accrue regular vacation and sick leave at 2.5 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.

#### 5. TERMINATION BENEFITS

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

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 **BFC** 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 **BFC**. The total number of employees who were voluntary terminated was four (4). During fiscal year ended June 30, 2019, no payments were made.

## 6. COMMITMENTS

**Operational Leases-** The **BFC** is obligated under certain leases accounted for as operating leases that do not give rise to property rights or lease obligations; therefore, neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most of the real property is leased from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico. Rent paid during the fiscal year ended June 30, 2019 under these lease agreements amounted to \$65,074. Also, during the fiscal year the Office of Management and Budget made rental payments of \$353,000 on behalf of the **BCF**. Information of the future minimum rental payments required under these operating leases was not available.

## 7. CONTINGENCIES

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

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

**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.

Based on the information available from the Commonwealth related to the implementation of its remediation plans as of the date hereof, we cannot conclude about the ultimate outcome of the Commonwealth's fiscal condition in future fiscal periods and the corresponding effect on future revisions of its fiscal plans or additional mitigation measures.

## 8. GOING CONCERN – PRIMARY GOVERNMENT

The Commonwealth of Puerto Rico (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 large 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 become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like the PRP, which is part of the Commonwealth.

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

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt.

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

Also, as described in **Note 7**, on May 3, 2017, the Commonwealth of Puerto Rico and the Oversight Board established by Congress filed for bankruptcy under Title III of PROMESA in what is poised to become one of the largest bankruptcies in the United States history. Both the Oversight Board and the New Commonwealth Administration have expressed a strong preference for restructuring the Commonwealth' debt through the use of Title VI. However, when it comes to the debt of the Commonwealth and those instrumentalities that rely on its taxing power for debt service, as opposed to the debt of certain of its instrumentalities, Title VI is unlikely to provide a realistic path to restructure such debt for the following reasons:

- Unlike Title III, Title VI contains no automatic stay of creditor litigation upon the commencement and during the continuation of the restructuring process. As the current stay is set to expire in May 2017, with limited options available for a further extension.
- Any attempt to restructure the commonwealth debt through Title VI will likely be complicated when existing litigation resumes, and additional litigation is commenced.
- Although that is a critical dispute.
- In addition, creditors already have challenged the invocation of the clawback by the Commonwealth, asserted claims against the Commonwealth based on violations of statutory impairment provisions, alleged that various property interest have been taken in violation of constitutional protections, and claimed violations of PROMESA and other statutes, and
- Regardless of the validity of these claims, it is clear that they will not all be resolved in the likely time frame that a Title VI process will take, and the outcome of such litigation, as well as other litigation that surely will be commenced upon the expiration of the current stay, could alter or harden the positions of the affected parties and change their willingness to compromise their claims.

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

As part of its normal operating activities, the **BFC** is completely dependent on appropriations from Commonwealth. As described before, as of June 30, 2019, the Commonwealth faces significant budgetary risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet their obligations when they become due. Because of budgetary constraints, the financial support that the Commonwealth has provided to the **BFC** may be affected in the near future. The **BFC** has evaluated the possible effects of the budgetary constraints and liquidity risks being faced by the Commonwealth on its statements and operations and has concluded that, as of June 30, 2019, the **BFC** will continue to operate as a going concern for a period not less than twelve months after such date.

## 9. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 20, 2020, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted.

	<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>				
Intergovernmental	\$ 48,876,000	\$ 55,104,487	\$ 55,059,552	\$ (44,935)
<b>Total cash receipts</b>	<u>48,876,000</u>	<u>55,104,487</u>	<u>55,059,552</u>	<u>(44,935)</u>
<b>CASH DISBURSEMENTS AND ENCUMBRANCES</b>				
General government	48,876,000	55,104,487	55,059,552	44,935
<b>Total cash disbursements and Encumbrances</b>	<u>48,876,000</u>	<u>55,104,487</u>	<u>55,059,552</u>	<u>44,935</u>
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Explanations of differences:</b>				
<b>Sources/outflows of resources:</b>				
Actual cash disbursements and encumbrances (budgetary basis) from budgetary comparison schedule				\$ 55,059,552
Net change on encumbrances and non-budgeted disbursements				<u>-</u>
Total cash disbursements reported on the statement of cash receipts and cash disbursements - General Fund				<u>\$ 55,059,552</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 BFC. The procedures followed in approving the annual budget is as follows:

1. Between November and December **BFC** 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 2018-2019 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.

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<b><u>U.S Department of Agriculture / Direct Program</u></b>				
Cooperative Forestry Assistance	10.664	N/A	\$ -	\$ 32,681
Total U.S. Department of Agriculture			-	32,681
<b><u>U.S Department of Transportation / Pass-Through the Puerto Rico Traffic Safety Commission</u></b>				
National Priority Safety Programs	20.616	18-05-39 /19-05-39	-	7,463
Total U.S. Department of Transportation			-	7,463
<b><u>U.S. Department of Homeland Security / Pass-Through the Office of the Governor's Authorized Representative (GAR)</u></b>				
Disaster Grant – Public Assistance (Presidentially Declared Disasters)	97.036	N/AV	-	15,675
<b><u>U.S. Department of Homeland Security / Direct Program</u></b>				
Assistance to Firefighters Grant	97.044	N/A	-	613,890
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	-	450,618
Total U.S. Department of Homeland Security			-	1,080,183
<b>Total Expenditures of Federal Awards</b>			<b>\$ -</b>	<b>\$ 1,120,327</b>

The accompanying notes are an integral part of this schedule.

## **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the funds expended by the **Bureau of Firefighters Corps of the Puerto Rico Public Safety Department (the BFC)** from all federal programs for the year ended June 30, 2019. The **BFC'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 **BFC**, it is not intended to and does not present the financial position and changes in net position of the **BFC**.

## **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 of 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 **BFC**, known as "pass-through awards" should be treated by the **BFC** 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 **BFC's** financial statements.

## **INDIRECT COST RATE**

The **BFC** has elected not to use the ten percent of the minimis indirect cost rate allowed under the Uniform Guidance.



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**

**Bureau of Firefighters Corps of the  
Puerto Rico Public Safety Department  
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 cash basis financial statements of the **Bureau of Firefighters Corps of the Puerto Rico Public Safety Department (the BFC)**, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the **BFC's** financial statements as listed in the table of contents, and have issued our report thereon dated February 20, 2020.

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

The accompanying financial statements of the **BFC** have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in **Note 8** 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 8**. 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 **BFC'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 **BFC's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **BFC'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.

**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)**

**Internal Control Over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **BFC'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*.

**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 **BFC'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 **BFC's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
February 20, 2020  
Stamp No. 2758878 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

Member of:

- 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

**Bureau of Firefighters Corps of the  
Puerto Rico Public Safety Department  
San Juan, Puerto Rico**

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

We have audited the **Bureau of Firefighters Corps of the Puerto Rico Public Safety Department (the BFC)** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the **BFC's** major federal programs for the year ended June 30, 2019. The **BFC'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 **BFC'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 **BFC'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 **BFC's** compliance.

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

**Opinion on Each Major Federal Programs**

In our opinion, the **BFC** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

**Report on Internal Control over Compliance**

Management of the **BFC** 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 **BFC'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 **BFC'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

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 (Continued)**

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

February 20, 2020

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was affixed to the record copy of this report.



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

**Financial Statements**

Type of auditors’ report issued on whether the financial statements audited were prepared in accordance with special reporting frame work:

**Type of Opinion**

Combined Statement of Governmental Activities – Cash Basis	Unmodified
General Fund – Cash Basis	Unmodified
Federal Fund – Cash Basis	Unmodified
Other Governmental Funds – Cash Basis	Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency (ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**Federal awards**

Internal Control over Major Federal Programs:

Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency (ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Type of auditor’s report issued on compliance for Major Federal Programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section 200.516(a) of the Uniform Guidance?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**Identification of Major Federal Programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.044	Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and Type B Programs	<b><u>\$750,000</u></b>
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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**Section II – Financial Statements Findings**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

### **Section III - Major Federal Award Program Findings and Questioned Costs**

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the federal awards that are required to be reported in accordance with the OMB Uniform Guidance.

**Finding No. 2018-001**

**Federal Agency:** US Homeland Security / Direct Program

**Federal Program Title and  
CFDA Number:** 97.083 Staffing for Adequate Fire and Emergency Response (SAFER)

**Grant Award Number:** EMW-2015-FH-00549

**Compliance Requirement:** Special Test and Provisions

**Type of Finding:** Instance of Noncompliance (NC) and Significant Deficiency (SD)

**Statement of Condition**

In our procedures performed over special tests and provisions requirements, we noted the following instances of noncompliance related to FEMA SAFER grant:

- The **BFC** do not maintain the staffing level during the period of performance (POP) as established, due to pre-retirement of 52 operational employees. A waiver was granted on April 2017. The new staffing level assigned was 1,577. However, as of June 30, 2018, the staffing level has not been met. In the progress report submitted for the quarter ended on June 7, 2018, the number of operational positions reported was 1,557. No additional waiver request was noted.
- As of June 30, 2018, three (3) SAFER vacancies were noted. The **BFC** was taking actions to backfill these positions; however, there were vacancies for more than six (6) months. As represented by the **BFC's** management, the difficulty with the hiring of the three (3) vacancies is the need of training for the new firefighters. Training costs are not allowed under the SAFER Program and the state does not have the funds available to provide training for just three (3) positions.

***Status:***

This program does not qualify as major program for fiscal year 2019. Also, the program funds were available to be expended up to December 15, 2018 (end of period of performance). The **BFC** was not able to comply with the staffing requirement. Accordingly, the audit finding was not corrected.