

**COMMONWEALTH OF PUERTO RICO
ENVIRONMENTAL QUALITY BOARD**

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018
(WITH THE ADDITIONAL REPORTS
REQUIRED BY THE GOVERNMENT
AUDITING STANDARDS AND
UNIFORM GUIDANCE)**

COMMONWEALTH OF PUERTO RICO
ENVIRONMENTAL QUALITY BOARD

SINGLE AUDIT REPORT
For the fiscal year ended June 30, 2018

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IRIZARRY RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

**To the Executive Director of the
Commonwealth of Puerto Rico
Environmental Quality Board
San Juan, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying combined statement of cash receipts and disbursements - governmental funds of the **Commonwealth of Puerto Rico Environmental Quality Board (EQB)**, for the fiscal year ended June 30, 2018, and the related notes to financial statement, which collectively comprise the **EQB's** basic 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 this financial statement in accordance with cash basis of accounting described in Note 2. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **EQB's** preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **EQB's** internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinions

In our opinion, the cash basis financial statement referred to above presents fairly, in all material respects, the respective cash receipts and disbursements of the **EQB** governmental funds, and the respective net changes thereof for the year ended June 30, 2018, in conformity with the basis of accounting described in **Note 2**.

Basis of Accounting

We draw attention to **Note 2** of the financial statement that describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern - Primary Government

The **EQB** is part of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statement of the **EQB** has been prepared assuming that the Commonwealth will continue as a going concern. As discussed in Note 9 to the financial statement, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the Commonwealth's ability to continue as a going concern. Management's plans regarding these matters are also described in **Note 9**. The financial statement does not include any adjustments that might result from the outcome of this uncertainty. Considering that the **EQB** depends substantially on appropriations from the Commonwealth, the financial condition and liquidity of the **EQB** could be similarly affected. Our opinions are not modified with respect to this matter.

Other

As discussed in **Note 1**, the financial statement of the **EQB** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of **EQB**. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance), on pages 46 through 47, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statement as a whole

Other Matters (Continued)

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 on our consideration of the **EQB's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **EQB's** internal control over financial reporting and compliance.


IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
March 27, 2019



COMMONWEALTH OF PUERTO RICO
ENVIRONMENTAL QUALITY BOARD

COMBINED STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

– GOVERNMENTAL FUNDS

For the fiscal year ended June 30, 2018

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	<u>General Fund</u>	<u>Special Revenues Fund</u>	<u>Federal Grants Fund</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:				
Appropriations from the Commonwealth of Puerto Rico	\$15,135,468	\$ -	\$ -	\$15,135,468
Fines	-	403,397	-	403,397
Licenses	-	15,579,394	-	15,579,391
Federal Grants	-	-	<u>13,559,791</u>	<u>13,559,791</u>
Total Cash Receipts	<u>15,135,468</u>	<u>15,982,791</u>	<u>13,559,791</u>	<u>44,678,050</u>
CASH DISBURSEMENTS:				
Air Quality Improvement	9,000	-	1,196	10,196
Analysis of Environmental Tests	651,680	-	-	651,680
Capital Improvements for Water and Sewing Projects	73,007	-	5,461,798	5,534,805
Clean Air Act Project	-	1,302,641	915,146	2,217,787
Emergency Response and Superfund Project	-	550,110	409,210	959,320
Environmental Emergencies	-	3,293,376	-	3,293,376
General Administration and Direction	6,968,936	-	-	6,968,936
Land Pollution Control	207,913	71,938	712,984	992,835
Pneumatic and Recycling Program	-	7,660,796	-	7,660,796
Oil Control	-	(1,622)	-	(1,622)
Pollution Control	204,292	-	10,323	214,615
Regional Services	1,153,075	-	-	1,153,075
Studies for Requests of Tax Exemptions	46,801	-	-	46,801
Water Quality Improvement	<u>111,040</u>	<u>25</u>	<u>3,123,168</u>	<u>3,234,233</u>
Total Cash Disbursements	<u>9,425,744</u>	<u>12,877,264</u>	<u>10,633,825</u>	<u>32,936,833</u>
Excess of cash receipts over cash disbursements	<u>\$ 5,709,724</u>	<u>\$ 3,105,527</u>	<u>\$ 2,925,966</u>	<u>\$ 11,741,217</u>

See notes to the accompanying notes to the financial statements.

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS

For the fiscal year ended June 30, 2018

1. FINANCIAL REPORTING ENTITY

A. Organization

The **Commonwealth of Puerto Rico Environmental Quality Board (EQB)** was established under Law Number 416 of September 22, 2004, as amended. **EQB** is responsible for the protection and conservation of the environment in the Commonwealth of Puerto Rico. The Commonwealth of Puerto Rico was constituted on July 25, 1952, under provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Commonwealth's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth. The Commonwealth assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

However, as a result of the current fiscal crisis that affects the Commonwealth, the U.S. Congress enacted a law establishing a Financial Oversight and Management Board (Oversight Board) with broad powers to exercise budgeting and financial controls over the Commonwealth's fiscal affairs, and review and approval over certain governmental responsibilities. This law is known as the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA) (See **Notes 2 and 9**).

As described on **Note 11**, on August 2, 2018, Law No. 171 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the JCA"), the Solid Waste Authority (hereinafter "the ADS") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the National Parks Program"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

B. Financial Reporting Entity

EQB is for financial reporting purposes a part of the Commonwealth of Puerto Rico. Because **EQB** is part, for financial reporting purposes, of the Commonwealth of Puerto Rico, its financial data is included as part of the Commonwealth of Puerto Rico financial statements. **EQB** 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 **EQB'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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

EQB's accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. The basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

This cash basis of accounting differs from GAAP primarily because revenue (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursement) are recognized when paid rather than when incurred or subject to accrual. The amounts reported as cash receipts are those received during the fiscal year 2017-2018. No accrual is recognized.

Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the **EQB's** financial statement. No long-term debt is reported in the **EQB's** financial statement. No accrued compensated absences are reported in the **EQB's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental funds column upon cash payment.

The accounts of the **EQB** are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds. These are composed of two funds which are described below. The accounts of the **EQB** are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

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

- **General Fund** – The general fund is the main operating fund of **EQB**. It is used to account for all financial resources except those required to be accounted for separately.
- **Special Revenues Fund** – Accounts for proceeds received through fines and penalties imposed to entities in Puerto Rico to assure compliance with federal and local environmental laws; and resources received from Indirect Costs Reimbursement from the Environmental Protection Agency.
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by the **EQB**.

Notes to Financial Statement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Stewardship, Compliance, and Accountability

Budgetary Information

On January 2, 2017, the Governor of Puerto Rico signed the Executive Order No. 2017-005, which required that all departments, agencies, and instrumentalities of the Government of Puerto Rico and those expressly required by the Governor, are ordered to implement the Zero-Base Budget methodology for the preparation of the budget for fiscal year 2017-2018 and subsequent fiscal years, per the applicable techniques and approaches of Zero-Base Budget and should be in conformity with the Fiscal Plan approved by the Oversight Board for Puerto Rico, pursuant to the Federal Law Pub. L. 114-187, Puerto Rico Oversight, Management and Economic Stability Act (PROMESA).

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

- Between November and December, **EQB** 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 of each fiscal year.
- 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.
- 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.

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

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by the federal agencies. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level. Budgetary Comparison Schedule is not legally required to do so.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Compensated Absences

EQB accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. After the approval of Act No. 8 of February 6, 2017, **EQB's** employees are granted 24 days of vacations and 12 days of sick leave annually. New employee accumulates retroactively after the first 3 months of employment. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days.

In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. **EQB** accrued a liability for compensated absences, which meet the following criteria: (1) **EQB's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

D. Reduction of Working Day

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

E. Risk Financing

The **EQB** is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees' health, and natural disasters. Commercial insurance policies covering such risk are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Commonwealth of Puerto Rico instrumentalities. Also, principal officials of the **EQB** are covered under various surety bonds. Management believes such coverage is sufficient to preclude any significant uninsured losses to the **EQB**.

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

EQB obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS (CONTINUED)

For the fiscal year ended June 30, 2018

3. **CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENTS (DEPARTMENT OF THE TREASURY OF THE COMMONWEALTH OF PUERTO RICO)**

The funds of the **EQB** 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 **EQB** in such pooled cash accounts are available to meet its current operating requirements.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **EQB** 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 **EQB** may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, or banker’s acceptance. Therefore, **EQB’s** management has concluded that at June 30, 2018, the custodial credit risk associated with the **EQB’s** cash and cash equivalents is considered low.

4. **FUND ADVANCES**

The **EQB** receives fund advances from the Treasury Department of Puerto Rico for the interim financing of federal programs, as authorized by Act No. 21 of 1979. This Act establishes that all fund advances made will be reimbursed to the General Fund of the Commonwealth’s Treasury as the corresponding federal funds are received. During the fiscal year ended June 30, 2018, no funds were advanced to the **EQB** for this purpose.

5. **LEASE COMMITMENTS**

The **EQB** is obligated under certain leases accounted for as operating leases. Operational leases not granted property rights or tenant obligations; therefore, neither the assets nor liabilities of leasing arrangements are reflected in the accounting records. Rent paid during the year that ended on June 30, 2018 under these lease agreements amounted approximately to **\$284,847**. This amount should be approximately the same expenditures in the following five fiscal years.

6. **PENSION PLAN**

Plan General Description and Retirement System Reform

The **EQB** 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.

6. PENSION PLAN

Plan General Description and Retirement System Reform

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”).

6. 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 **EQB**) 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.

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS (CONTINUED)

For the fiscal year ended June 30, 2018

6. 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 2017-2018 the EQB's PayGo charges recognized by the plan amounted to **\$6,921,844**.

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, 2018, employees' contributions amounted to **\$890,967**.

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.

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS (CONTINUED)

For the fiscal year ended June 30, 2018

7. CONTINGENCIES

A. Federal Awards

In the normal course of operations, the **EQB** participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program regulations, the **EQB** may be required to reimburse the grantors for such expenditures.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with Uniform Guidance for the year ended June 30, 2018, disclosed an instance of noncompliance with applicable laws and regulations that were considered to be a significant deficiency.

In addition, the **EQB** is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

B. Litigation

The **EQB** is defendant in lawsuits arising in the normal course of governmental operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to Act Number 104 of the Commonwealth of Puerto Rico, as amended, known as "Claims and Lawsuits against the State", provides that lawsuits initiated against an agency or instrumentality of the Commonwealth, including its employees, directors, mayors, and other government officers may be defended by **EQB**. 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 **EQB**.

8. RELATED PARTY TRANSACTIONS

The **EQB** has the following transactions with governmental units:

- A. The **EQB** paid to the Puerto Rico Electric Power Authority the amount of **\$115,007** for services provided during the fiscal year ended June 30, 2018.
- B. The **EQB** paid to the Puerto Rico General Services Administration the amount of **\$141,667** for services provided during the fiscal year ended June 30, 2018.
- C. The **EQB** paid to the Puerto Rico Water and Sewer Authority the amount of **\$136,677** for services provided during the fiscal year ended June 30, 2018.
- D. The **EQB** paid to others governmental units the amount of **\$129,469** for various concepts of services provided during the fiscal year ended June 30, 2018.

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS (CONTINUED)

For the fiscal year ended June 30, 2018

9. GOING CONCERN – PRIMARY GOVERNMENT

The Commonwealth of Puerto Rico (Commonwealth) is in the midst of a profound fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession, 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. The Commonwealth's 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.

These matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other component units of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk.

These factors have also resulted in delays in the repayment by the Commonwealth and its component units of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth and have caused GDB to fail to make a principal payment on its debt obligations. Similarly, and pursuant to a series of legislations and executive orders during fiscal year 2016 and further explained below, the Commonwealth and certain other public corporations also delayed the debt service payments on some of its debt, including the general obligation bonds of the Commonwealth.

These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed in a default rating of "D". They also lowered similarly to a default grade their ratings on the bonds of the PBA and GDB, while the ratings on the bonds of COFINA have been lowered multiple notches to a current noninvestment grade level of CC and D, depending on the particular rating agency.

- A. The Primary Government reflects a net position deficit/fund balance deficit of approximately \$67.7 billion as of June 30, 2015. The Commonwealth's General Fund shows a fund balance (deficit) of approximately \$2.1 billion.
- B. For the fiscal year ended June 30, 2016, the Legislature of Puerto Rico did not appropriate approximately \$94 million for the payments of the PFC bonds which are obligations of certain component units of the Commonwealth that are payable solely from such appropriations.
- C. On April 6, 2016, the Commonwealth enacted Act No. 21, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (the Moratorium Act) under which, the Commonwealth and certain of its component units suspended their respective debt service payments. In particular, the Commonwealth suspended the payment of \$779 million in debt service on general obligation bonds due July 1, 2016 (net of \$352 million of capitalized interest fund and escrow accounts).

NOTES TO THE COMBINED STATEMENT OF CASH RECEPITS
AND DISBURSEMENTS – GOVERNMENTAL FUNDS (CONTINUED)

For the fiscal year ended June 30, 2018

9. GOING CONCERN – PRIMARY GOVERNMENT (CONTINUED)

On May 1, 2017, the PROMESA Stay expired, permitting the substantial litigation brought by bondholders and other creditors against the Commonwealth and its component units to resume. As a result, on May 3, 2017, the Oversight Board filed a petition for relief under Title III of PROMESA. Title III of PROMESA incorporates the automatic stay provisions of Bankruptcy Code section 362 and 922, which are made applicable to the Title III cases pursuant the PROMESA section 301 (a).

Remediation Plan – Primary Government

On April 19, 2018 (recertified on May 30, 2018 and amended on June 29, 2018), the Oversight Board certified its fiscal plan for the Commonwealth including the following areas: Revenues Enhancements, Reducing Health Care Spending, Reducing Higher Education Spending, Pension Reform, Improving Capital Efficiency, Structural Reforms, and Debt Restructuring Process.

There is no certainty that the Certified Commonwealth Fiscal Plan (as revised and amended) will be fully implemented, or if implemented will ultimately provide the intended results. All these plans and measures, and the Commonwealth's ability to reduce its deficit and to achieve a balanced budget in future fiscal years depends on a number of factors and risks, some of which are not wholly within its control. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

11. SUBSEQUENT EVENTS

EQB has evaluated subsequent events through March 27, 2019, the date which the financial statement were available to be issued. No subsequent events were identified that should be disclosed or adjusted in the financial statement or its notes, except for the matter discussed in the following paragraphs.

Law No. 171 – Reorganization Plan for the Department of Natural and Environmental Resources

Law No. 171 of August 2, 2018 was enacted for the purpose of executing and complying with the Reorganization Plan of the Department of Natural and Environmental Resources of 2018 (hereinafter, "the Plan") adopted pursuant to Law No. 122 of December 18, 2017, which transfers, groups and consolidates in the Department of Natural and Environmental Resources (hereinafter, "the Department"), faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the JCA"), the Solid Waste Authority (hereinafter "the ADS") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the National Parks Program"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

The Secretary of the Department shall have all the faculties and powers necessary for the implementation of the Plan and the amendments contained herein. The implementation of the Plan must comply with the guidelines and general principles established in Law No. 122 of December 18, 2017.

**COMMONWEALTH OF PUERTO RICO
ENVIRONMENTAL QUALITY BOARD**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the fiscal year ended June 30, 2018**

Federal grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Pass-through To Subrecipients	Total Federal Expenditures
U.S. Department of Defense				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		\$ -	\$ 374,127
Total U.S. Department of Defense			<u>-</u>	<u>374,127</u>
U.S. National Aeronautics and Space Administration				
Science	43.001		-	10,323
Total U.S. National Aeronautics and Space Administration			<u>-</u>	<u>10,323</u>
U.S. Environmental Protection Agency				
Air Pollution Control Program Support	66.001		-	539,097
Surveys, Studies, Research, Investigations, Demonstrations, and Special purpose Activities Relating to the Clean Air Act	66.034		-	317,367
State Clean Diesel Grant Program	66.040		-	10,290
Multipurpose Grants to States and Tribes	66.204		-	58,682
Water Quality Management Planning	66.454		-	134,635
Capitalization Grants for Clean Water State Revolving Funds	66.458		5,096,849	5,461,798
Beach Monitoring and Notification Program Implementation Grants	66.472		-	160,001
Performance Partnership Grants	66.605		-	2,160,077
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		-	1,196
TSCA Title IV State Lead Grants Certification of Lead- Based Paint Professionals	66.707		-	145,031
Hazardous Waste Management State Program Implementation Grants	66.801		-	557,663
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		-	12,483
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		-	172,180
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		-	496,275
State and Tribal Response Program Grants	66.817		-	22,600
Total U.S. Environmental Protection Agency			<u>5,096,849</u>	<u>10,249,375</u>
Total expenditures of federal awards			<u>\$ 5,096,849</u>	<u>\$10,633,825</u>

See notes to Schedule of Expenditures of Federal Awards

1. **BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activities of the **Commonwealth of Puerto Rico Environmental Quality Board (EQB)** under programs of the Federal government for the fiscal year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the **EQB**, it is not intended to and does not present the financial position, changes in net position, or cash flows of the **EQB**.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget Circular A-87, State and Local Governments, or the cost principles contained in Subpart E of Title 2 U.S. Code of Federal Regulation Part 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available and applicable.

3. **INDIRECT COST RATE**

The **EQB** has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. At this time, the **EQB** has a negotiated indirect cost rate with US EPA. The approved rate for the year ended June 30, 2018 was 30.10%.

4. **SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING**

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

5. **FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

6. **RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND NET CHANGES –
GOVERNMENTAL FUNDS**

Expenditures of federal awards are reported in the **EQB's** Statement of Combined Cash Receipts and Disbursements – Governmental Fund in the Federal Grants Fund.

7. **ADMINISTRATIVE EXPENSES**

As provided by Federal laws and regulations, reasonable costs of administering the Capitalization Grants for Clean Water State Revolving Fund are reimbursable up to a maximum of 4% of the capitalization grant awarded each year. Total reimbursement of administrative expenses received by the **EQB** from the Capitalization Grant for Clean Water State Revolving Fund during the fiscal year ended June 30, 2018, amounted to **\$376,326**.

IRIZARRY RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

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

To the Executive Director of the
Commonwealth of Puerto Rico
Environmental Quality Board
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 each major fund, and the aggregated remaining fund information arising from cash transactions of the **Commonwealth of Puerto Rico Environmental Quality Board (the EQB)**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **EQB's** basic financial statements as listed in the table of contents, and have issued our report thereon dated March 27, 2019.

Going Concern

Our report on the financial statement includes an emphasis-of-matter paragraph describing conditions, discussed in **Note 9** to the financial statement, that raised substantial doubt about the Commonwealth of Puerto Rico and EQB's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **EQB'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 **EQB's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **EQB's** internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **EQB'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 **EQB'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 **EQB's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
March 27, 2019



IRIZARRY, RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

IRIZARRY RODRIGUEZ & CO., PSC
Certified Public Accountants & Consultants

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

To the Executive Director of the
Commonwealth of Puerto Rico
Environmental Quality Board
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico **Environmental Quality Board of the Commonwealth of Puerto Rico (the EQB)**'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the **EQB**'s major federal programs for the fiscal year ended June 30, 2018. The **EQB**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Going Concern

Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 9 to the financial statement that raised substantial doubt about the Commonwealth of Puerto Rico and **EQB**'s ability to continue as a going concern.

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 **EQB**'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 **EQB**'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 **EQB**'s compliance.

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Opinion on Each Major Federal Programs

In our opinion, the **EQB** 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Item **2018-001**. Our opinion on each major federal program is not modified with respect to this matter.

EQB's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **EQB's** response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the **EQB** 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 **EQB'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 **EQB'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.

Report on Internal Control over Compliance (Continued)

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. However, we identified certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item **2018-001** to be a significant deficiency.

Report on Internal Control over Compliance (Continued)

EQB's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **EQB's** response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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


IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
March 27, 2019



**COMMONWEALTH OF PUERTO RICO
ENVIRONMENTAL QUALITY BOARD**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the fiscal year ended June 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

Auditors’ Report Issued Unmodified

Internal control over financial reporting:

Material weakness (es) identified? Yes No

Significant deficiency (ies)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal awards

Internal Control over Major Federal Programs:

Material weakness (es) identified? Yes No

Significant deficiency (ies)? Yes No

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.605	Performance Partnership Grants

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

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

Section III - Major Federal Award Program Findings and Questioned Costs

Finding No. 2018-001

Federal Agency: US Environmental Protection Agency

**Federal Program Title and
CFDA Number:** 66.458 Capitalization Grants for Clean Water State Revolving Funds
66.605 Performance Partnership Grants

Grant Award Numbers: CS-72000111, CS-72000116, 14BG992933413, 14BG992933414, 14BG992933415,
14BG992933416

Compliance Requirement: Reporting

Type of Finding: Significant Deficiency in Internal Control (SD) and Noncompliance

Statement of Condition:

During our procedures performed in the reporting requirements, we noted the following instances of noncompliance:

Capitalization Grants for Clean Water State Revolving Funds

- The Final Federal Financial Report (FFRs)/ Close Out for the grant award CS-72000111 for the State Revolving Fund for the period ended on September 30, 2017; has not been submitted by the Puerto Rico Environmental Quality Board to the US Environmental Protection Agency (EPA). An extension was requested until September 30, 2018, in order to reduce unliquidated obligations issues. However, the extension was granted until September 30, 2017. An Interim Federal Financial Report was submitted instead.
- The Interim Federal Financial Report (FFRs) Standard Form 425- for the grant award CS-72000116 of the State Revolving Fund for the period ended on September 30, 2017; has not been submitted by the Puerto Rico Environmental Quality Board to the US Environmental Protection Agency (EPA).

Performance Partnership Grants

- The Final Performance Report for the grant award 14BG992933413 was not submitted by December 31, 2017. No extension for the submission was noted for this award.
- The Interim Annual Report for the grants awards 14BG992933414, 14BG992933415 and 14BG992933416 was not submitted by December 31, 2017. No extension for the submissions was noted for these awards.

Criteria

Pursuant to 2 CFR § 200.327 and § 200.343, EPA recipients shall submit an interim annual Federal Financial Report (SF-425) to EPA no later than 90 days calendar days after the grant performance period ends. A Closeout Phase for the grants will be initiated by submitting a Final Federal Financial Report within 90 days of the project end period.

In accordance with 2 CFR § 200.328, the recipient should submit to EPA, a final performance report within 90 days of the project period end date. If the project period end date is extended, an annual report is due by December 31 of each year for the duration of the agreement.

Section III - Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2018-001 (Continued)

Cause of Condition

Delay in requested information provided by management to the staff in charge for the submittal of the financial federal reports. Unliquidated obligations issues needed to be addresses for the Close Out process.

EQB had experimant a delay in compile the information necessary to prepare the performance reports after the impact of the Hurricane Maria. In addition, the preparation of some progress reports was delayed a result of a cyber-attack that affects the access to documents saved in the intranet servers.

Effect of Condition

The federal agency (EPA) may take enforcement actions in accordance with 2 CFR § 200.338 if the recipient does not comply with the term and condition of the federal award.

Recommendations

In order to comply with reporting requirements, management must put in place procedures to coordinate with the personnel in charge for the preparations of the financial reports provide to them; all the information needed to ensure proper and accurate information and timely submittal of the financial reports.

Questioned Costs

None

Auditee Response

See Grantee's Corrective Action Plan

FINDING 2017-001: Suspension and Debarment (See Finding Reference Number 2017-004)

Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness and Material Non-compliance

Condition: The EQB did not perform a review under the suspended or debarred list of the Federal Government for their two suppliers of environmental projects.

Status: Corrected.

FINDING 2017-002: Reporting (See Finding Reference Number 2017-005)

Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness and Material Non-compliance

Condition: The EQB did not include Federal expenditures amounting to \$1,199,227, during the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Status: Corrected.

FINDING 2017-003: Sub-recipient Monitoring (See Finding Reference 2017-006)

Condition: The EQB did not perform a review of the sub-recipient's financial reports, including if applicable the Single Audit Report, as part of the sub-recipient risk evaluation for the sub-awards provided. In addition, the EQB did not ensure that the sub-recipients expending \$750,000 or more in Federal awards during the sub-recipient's fiscal year for fiscal years beginning on or after December 26, 2014, met the audit requirements of 2 CFR Part 200, subpart D, and that the required audits were completed within 9 months of the end of the sub-recipient's audit period. No internal controls related to obtain and review those Single Audits were designed.

Status: Corrected.

FINDING 2017-004: Suspension and Debarment (See Finding Reference 2017-001)

Internal Control/Compliance over Suspension and Debarment - Material Weakness and Material Non-compliance

Condition: The EQB did not perform a review under the suspended or debarred list of the Federal Government for their two suppliers of environmental projects.

Status: Corrected.

FINDING 2017-005: Reporting (See Finding Reference 2017-002)

Internal Control/Compliance over Reporting - Material Weakness and Material Non-compliance

Condition: The EQB did not include Federal expenditures amounting to \$1,199,227, during the preparation of the Schedule of Expenditures of Federal Awards (SEFA).

Status: Corrected.

FINDING 2017-006: Reporting (See Finding Reference 2017-003)

Internal Control/Compliance over Reporting - Material Weakness and Material Non-compliance

Condition: The EQB did not perform a review of the sub-recipient's financial reports, including if applicable the Single Audit Report, as part of the sub-recipient risk evaluation for the sub-awards provided. In addition, the EQB did not ensure that the sub-recipients expending \$750,000 or more in Federal awards during the sub-recipient's fiscal year for fiscal years beginning on or after December 26, 2014, met the audit requirements of 2 CFR Part 200, subpart D, and that the required audits were completed within 9 months of the end of the sub-recipient's audit period. No internal controls related to obtain and review those Single Audits were designed.

Status: Corrected.

**ENVIRONMENTAL QUALITY BOARD
DEPARTMENT OF DEFENSE COMPLIANCE REVIEW
CORRECTIVE ACTION PLAN**

FINDING	AUDITOR'S FINDING	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION PLAN	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
2018-001	<p>Capitalization Grants for Clean Water State Revolving Funds.</p> <p>The Final Federal Financial Report (FFR's)/Close Out for the grant award CS-72000111 for the State Revolving Fund for the period ended on September 30, 2017; has not been submitted by the Puerto Rico Environmental Quality Board to the US Environmental Protection Agency (EPA). An extension was requested until September 30, 2018, in order to reduce unliquidated obligations issues. However, the extension was granted until September 30, 2017. An interim Federal Financial Report was submitted instead.</p> <p>The Interim Federal Financial Report (FFRS) Standard Form 425 for the grant award CS-72000116 of the State Revolving Fund for the period ended on September 30, 2017; has not been submitted by the Puerto Rico Environmental Quality Board to the US Environmental Protection Agency (EPA).</p> <p>Performance Partnership Grants</p> <p>The Final Performance Report for the grant award 148G99293413 was not submitted by December 31, 2017. No extension for the submissions was noted for this award.</p> <p>The Interim Annual Report for the grants awards 148G99293414, 148G99293415 and 148G99293416 was not submitted by December 31, 2017. No extension for the submissions was noted for these awards.</p>	<p>In order to comply with reporting requirements, management must put in place procedures to coordinate with the personnel in charge for the preparations of the financial reports provide to them; all information needed to ensure proper and accurate information and timely submittal of the financial reports.</p>	<p>In order to comply with the reporting requirements, the Environmental Quality Board (EQB) will request an extension to send the Final FFR until 09/30/2020, as long as the problem with the final payment is resolved. It will be sending the Interim FFR for 09/30/2018.</p> <p>In order to comply with the reporting requirements, the Environmental Quality Board (EQB) will be sending a letter requesting that all communication or correspondence related to the Cooperative Agreements must be sent by email already created by the EQB in order for the information to arrive in time to all the persons related to the management of the grants. On March 18, 2019 the Interim FFR that corresponds to 09/30/2017 was submitted to the EPA</p> <p>In order to comply with the reporting requirement, the Environmental Quality Board (EQB) completed the contracting process for the Disaster Recovery. Today the EQB has backup of all the information of the Agency, that to arise another atmospheric event, cyber attack or any large event the recovery of information will be faster and more efficient.</p>	<p>External Resources Office and Water Quality Program</p> <p>External Resources Office</p> <p>Office of System Information (OSI)</p>		


 Certifying Official
 Environmental Quality Board



GOBIERNO DE PUERTO RICO

Departamento de Recursos Naturales y Ambientales

29 de marzo de 2019

Sr. Armando G. Otero
Subsecretario

Tania Vázquez Rivera
Secretaria

DELEGACIÓN DE FIRMA

En virtud de la autoridad que me confiere la Ley Núm. 23 de 20 de junio de 1972, según enmendada, mejor conocida como *Ley Orgánica del Departamento Recursos Naturales y Ambientales*, y conforme a lo establecido en la Ley 171-2018, *Ley para Implantar el Plan de Reorganización del Departamento de Recursos Naturales y Ambientales de 2018*, por la presente le delego la facultad de firmar el(los) siguiente(s) documento(s):

- **CORRECTIVE ACTION PLAN FINDING 2018-001 – DEPARTMENT OF DEFENSE COMPLIANCE REVIEW**

La firma de documentos oficiales conlleva una gran responsabilidad y está fundamentada en el principio de delegación. La responsabilidad conferida y delegada a usted presupone un cumplimiento a cabalidad y a satisfacción de la suscribiente y la misma se hace en carácter de funcionario autorizado de la extinta Autoridad de Desperdicios Sólidos durante el periodo de transición dispuesto por la Ley 171, *supra*.

/ero

