

**Commonwealth of Puerto Rico
Department of Natural and
Environmental Resources**

Financial Statement

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

**(With The Additional Reports Required
By The Governmental Auditing Standards
And The Uniform Guidance)**

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Financial Statements

For the fiscal year ended June 30, 2019

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

INDEPENDENT AUDITORS' REPORT

Honorable Secretary
Commonwealth of Puerto Rico
Department of Natural and Environmental Resources
San Juan, Puerto Rico

Report on the Financial Statements

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements - Governmental Funds (the Statement) of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico** (the Department), for the fiscal year ended June 30, 2019, and the related notes to the Statement, which collectively comprise the Department's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Statement in accordance with the cash basis method of accounting described in **Note 3**; this includes determining that the cash basis method of accounting is an acceptable basis for the preparation of the 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 the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express our opinion on the 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 Statement is free from material misstatement.

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

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Auditors' Responsibility (Continued)

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the cash receipts and cash disbursements of the Department's governmental funds for the fiscal year ended June 30, 2019, in conformity with the basis of accounting described in **Note 3**.

Emphasis of Matter

Financial Deterioration of the Commonwealth of Puerto Rico (The Commonwealth)

As discussed in **Note 2** to the Statement, the Department is part of the Commonwealth. As of June 30, 2019, the financial condition and liquidity of the Commonwealth has deteriorated. Considering that the Department depends completely on appropriations from the Commonwealth, the financial condition and liquidity of the Department could be similarly affected.

Basis of Accounting

We draw attention to **Note 3** of the Statement that describes the basis of accounting. The Statement was prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reorganization Plan

As described on **Notes 1 and 9**, 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.

Report on Required Supplementary Information

The Department has not presented the management's discussion and analysis that is necessary to supplement although not required to be part of this Statement.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Department's Statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the 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 Statement.

The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement or to the Statement itself, 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 Statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020, on our consideration of the Department's internal control over financial reporting and on 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 the Department's internal control over financial reporting and compliance.



IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
September 22, 2020

The Stamp Number E417177 was
affixed in the original of this Report.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
For the Fiscal Year Ended June 30, 2019

	General Fund	Special Revenue Fund	Federal Fund	Environmental Quality Program Fund	Total Governmental Funds
CASH RECEIPTS:					
Legislative appropriations	\$ 41,029,063	\$ -	\$ -	\$ 21,824,638	\$ 62,853,701
Federal grants	-	-	14,415,611	7,597,044	22,012,655
State special grants	-	25,614,874	-	-	25,614,874
Charge for services	-	5,052,587	-	16,830,878	21,883,465
	<u>41,029,063</u>	<u>30,667,461</u>	<u>14,415,611</u>	<u>46,252,560</u>	<u>132,364,695</u>
CASH DISBURSEMENTS:					
Executive management	1,720,967	4,612,173	1,687,850	-	8,020,990
Administration	192,687	-	-	-	192,687
Management affairs	12,049,559	726,460	461,812	-	13,237,831
Consulting assistance	904,200	-	72,008	-	976,208
Environmental education and information	344,933	-	244,896	-	589,829
Living resources	4,223,938	880,559	6,270,532	-	11,375,029
Permits endorsement and specialized services	883,274	-	210,442	-	1,093,716
Integral planning	918,909	-	401,512	-	1,320,421
Rangers	10,522,842	-	329,745	-	10,852,587
Regional coordination	2,761,433	-	-	-	2,761,433
Water and mineral resources	1,672,887	4,782,871	-	-	6,455,758
National parks program	4,666,527	494,492	-	-	5,161,019
Environmental quality program	-	-	-	31,842,627	31,842,627
	<u>40,862,156</u>	<u>11,496,555</u>	<u>9,678,797</u>	<u>31,842,627</u>	<u>93,880,135</u>
Excess (deficiency) of Cash Receipts Over (under) Cash Disbursements	<u>\$ 166,907</u>	<u>\$ 19,170,906</u>	<u>\$ 4,736,814</u>	<u>\$ 14,409,933</u>	<u>\$ 38,484,560</u>

See accompanying notes to the statement of cash receipts and cash disbursements.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements
For the Fiscal Year Ended June 30, 2019

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1. ORGANIZATION AND REPORTING ENTITY

The Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico (the Department) is an instrumentality and part of the executive branch of the Commonwealth of Puerto Rico. The Department was created by Act No. 23 of June 20, 1972, as amended, to manage, protect, conserve, and develop the natural resources and the environment of the island of Puerto Rico.

The Department is in charge of developing and implementing their tasks in accordance with the duties and responsibilities conferred by the Constitution and the Laws in force in accordance with the established environmental public policy.

The Department is under the direction and supervision of a Secretary appointed by the Governor of Puerto Rico. The Secretary of the Department is responsible for the design, implementation and supervision of the operations of the Department, including its fiscal organization.

As described on **Note 9**, 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 EQB"), the Solid Waste Authority (hereinafter "the SWA") and the Program of National Parks attached to the Department of Recreation and Sports, hereinafter "the National Parks Program" (NPP), 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. The Department shall be responsible for implementing the public policy of the Government of Puerto Rico contained in section 19 of Article VI of the Constitution.

For these purposes, it will put into effect programs for the use and conservation of the environment and natural resources of Puerto Rico in accordance with the provisions of Act 416-2004, as amended, known as the "Environmental Public Policy Act."

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

In order to complete the Reorganization Plan described before, the Department have implemented the following measures:

- A. The accounts of the NPP were integrated in the PRIFAS Accounting System effective on January 1, 2019. Accordingly, the resources and expenditures of the NPP have been recognized in the accompanying Statement of Cash Receipts and Cash Disbursements from January 1, 2019 through June 30, 2019.
- B. The cash receipts and cash disbursements related to the resources and expenditures of the EQB were combined and accounted for in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2019. The cash basis financial information of the EQB is presented in the Environmental Quality Program Fund based on the EQB's audited Statement of Cash Receipts and Cash Disbursements issued on March 18, 2020.

Also, as described on **Note 9**, on July 1, 2019, the Puerto Rico Department of Treasury created a set of accounts on the PRIFAS Accounting System to recognize the transactions of the EQB as a part of the Department.

- C. The SWA's main purpose is to provide alternatives for the processing of solid waste in Puerto Rico. Also, the SWA has the responsibility of educating the community in this respect, as well as the implementation of the required programs needed for the reduction and reuse of solid waste. The SWA financial statements are prepared using the accrual method of accounting, which is a different method of accounting from the method used by the Department. Accordingly, the financial statements of the SWA cannot be consolidated and presented in the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2019.

Also, the SWA's audited financial statements for the fiscal year ended June 30, 2019 are not available at September 22, 2020, the date of issuance of the Department's Statement of Cash Receipts and Cash Disbursements for the fiscal year ended June 30, 2019. However, the information of the SWA's Unaudited Statement of Financial Position and Unaudited Statement of Activities as of and for the year ended June 30, 2019 are presented below.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

The following is a summary of the financial information of the Solid Waste Authority, based on interim unaudited financial statements as of June 30, 2019:

SOLID WASTE AUTHORITY
(a component unit of the Government of Puerto Rico)
Statement of Net Position – Unaudited

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,908,859
Accounts receivable, net of allowance for doubtful accounts	<u>2,155,633</u>
Total current assets	<u>14,064,492</u>

Non-current assets:

Due from Commonwealth of Puerto Rico	404,621
Capital assets, net of accumulated depreciation	94,055,542
Other assets	<u>132,782</u>
Total non-current assets	<u>94,592,945</u>

108,657,437

Deferred outflows of resources - pensions 3,180,628

Total assets \$ 111,838,065

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COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

SOLID WASTE AUTHORITY
(a component unit of the Government of Puerto Rico)
Statement of Net Position – Unaudited (Continued)

LIABILITIES AND NET POSITION

Current liabilities:	
Current portion of long-term obligations:	
Accrued compensated absences	\$ 300,000
Voluntary termination benefits	323,285
Bond payable	1,013,481
Accounts payable, trade	4,099,605
Accrued liabilities	29,952,310
Deferred revenues	4,540,874
Due to governmental entities	<u>3,877,215</u>
Total current liabilities	<u>44,106,770</u>
Non-current liabilities:	
Lines of credit	71,861,267
Bond payable	6,786,465
Due to other governmental entities	4,541,117
Accrued compensated absences	14,437
Voluntary termination benefits	2,585,786
Net pension liability	<u>15,894,906</u>
Total non-current liabilities	<u>101,683,978</u>
Total liabilities	<u>145,790,748</u>
Deferred inflows of resources - pensions	<u>1,739,956</u>
Net position (deficit):	
Net investment in capital assets	22,194,275
Unrestricted	<u>(57,886,914)</u>
Total net position (deficit)	<u>(35,692,639)</u>
Total liabilities and net position (deficit)	<u>\$ 111,838,065</u>

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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1. ORGANIZATION AND REPORTING ENTITY (CONTINUED)

SOLID WASTE AUTHORITY

(a component unit of the Government of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position – Unaudited (Continued)

Operating revenues	\$ 888,452
Operating expenses	<u>10,975,804</u>
Operating loss before non-operating revenues (expenses)	(10,087,352)
Total non-operating revenues (expenses)	<u>(1,673,265)</u>
Change in net position	(11,760,617)
Net position (deficit) at beginning of fiscal year	<u>(23,932,022)</u>
Net position at end of fiscal year	<u>\$ (35,692,639)</u>

2. GOING CONCERN CONSIDERATION

As part of its normal operating activities, the Department is completely dependent on appropriations from Commonwealth. 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 Department may be affected in the near future. The Department 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 Department will continue to operate as a going concern for a period not less than twelve months after such date.

3. SUMMARY OF SIGNIFICANT POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The Statement of Cash Receipts and Cash Disbursements of the Department is intended to present the receipts and disbursements on only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the Department, solely to provide the Department's operating results to the Commonwealth of Puerto Rico and certain federal awarding agencies to comply with the Single Audit Act of 1984, P.L. 98-502, as subsequently amended, and are not intended to be and should not be used by anyone other than these specified parties.

The Department's accompanying financial statement has been prepared in accordance with the cash basis of accounting, which is a special purpose framework other than generally accepted accounting principles 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.

The cash basis of accounting differs from GAAP primarily because revenue (cash receipts) is recognized when received in cash rather than when earned and susceptible to accrual, and expenditures (cash disbursements) are recognized when paid rather than when incurred or subject to accrual. No accrual is recognized.

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

The following funds 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** - is the general operating fund of the Department. It is used to account for all financial resources, except for those required to be accounted for in another fund.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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3. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

- **Special Revenue Fund** - This fund is used to account for the proceeds of specific revenue sources (other than expendable for specific purposes).
- **Federal Fund** - The Department participates in a number of Federal Financial Assistance Programs funded by the Federal Government that are legally restricted to expenditures for specific purposes in accordance with grant agreements. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors
- **Environmental Quality Program Fund** - This fund is use to account for resources and expenditures related to the Environmental Quality Board operations transferred to the Department as a part of the Reorganization Plan described on **Note 1**.

These funds included the following programs:

Management and Administration - This program is used to account for resources and expenditures related to providing support and advice to the Department by providing tools and mechanisms to facilitate the coordination and execution of the overall administration of the human resources, acquisitions, finance, legal advice and general services. These are composed of the following:

- *Executive Management*
- *Administration*
- *Management Affairs*
- *Consulting Assistance*

Environmental Education and Information - This program is used to account for resources and expenditures related to creation, custody and dissemination of educational information and material over the importance to protect our natural and environmental resources.

Living Resources - This program is used to account for resources and expenditures related to establishment of public policies related to the use, conservation, development and administration of the forest resources, protected species, endangered species and exotic species, including natural resources in coastal zones and sport fishing and hunting programs.

3. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Permits, Endorsements and Specialized Services - This program is used to account for resources and expenditures related to the licensing of the earth extraction permits, franchising and water use permits, concessions and authorization of maritime and land maritime estate.

Integral Planning - This program is used to account for resources and expenditures related to the establishment of public policies related to the use, conservation, development and administration of land natural resources.

Rangers - This program is used to account for resources and expenditures related to the guardian and protection of all natural resources around the island.

Regional Coordination - This program is used to account for resources and expenditures related to cleaning and maintaining in optimum conditions the beaches and rivers among other waters corps and the conservation of life and such property. Facilities to satisfy the needs of the community and to provide support to the service programs are carried on through the regional offices located at Aguadilla, Arecibo, Guayama, Humacao, Mayaguez, Ponce, and San Juan.

Water and Minerals Resources - This program is used to account for resources and expenditures related to establishment of public policies related to the use, conservation development and administration of the water and mineral resources around the island. Also, these funds are used for flood control projects.

National Parks Program – This program is use to account for resources and expenditures related to the National Parks Program (NPP) operations transferred to the Department as a part of the Reorganization Plan described on **Note 1**. The resources and expenditures transactions related to the NPP were transferred and accounted for the Department from January 1, 2019 through June 30, 2019

Environmental Quality Program - This program is use to account for resources and expenditures related to the Environmental Quality Board operations transferred to the Department as a part of the Reorganization Plan described on **Note 1**.

3. **SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)**

Budgetary Accounting

Formal budgetary accounting is employed as a management control tool for all funds of the Department. 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 as required throughout the year. All unencumbered budget appropriations of state funds lapse after the end of each fiscal year.

The Statement of Cash Receipts and Cash Disbursements is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level to provide management with detailed control over expenditures at the appropriate budget level.

Inventories

The Department purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as cash disbursements in the financial statement.

Property and Equipment

Property and equipment acquired are recorded as cash disbursements in the financial statement.

Inter-fund Transactions

Transfer of expenditures (reimbursements) made by one fund to another are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

Compensated Absences

The employees of the Department 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. The payment of regular vacations and sick leave is recorded when paid.

3. SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

Compensated Absences (Continued)

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.

Risk Financing

The Treasury Department of the Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims, and other losses on behalf of the Department. For workers' compensation, the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, provides the workers compensation to the Department's employees

Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded when paid.

4. EMPLOYEE'S RETIREMENT PLAN

Pension Retirement System – prior to July 1, 2017

The Department 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. 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,

4. **EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Pension Retirement System – prior to July 1, 2017 (Continued)

- 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”).

4. **EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Pension Retirement System – after July 1, 2017

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:

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, 2018 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 Department) 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.

4. **EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Pension Retirement System – after July 1, 2017 (Continued)

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. During the fiscal year 2018-2019, the Department was billed and recognized as PayGo charges expenditures for **\$6,611,853**.

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 **\$2,480,314**.

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, 2018, benefits will include amounts participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

4. **EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Pension Retirement System – after July 1, 2017 (Continued)

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. Additional information on the Retirement System is provided in its financial statements, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42003, San Juan, Puerto Rico 00940-2003.

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

Plan description

The Department is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

Contributions

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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5. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Contributions (Continued)

The Department's contribution is financed through the monthly "PayGo" charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

6. LEASE COMMITMENTS

The Department is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Rental payments are recognized as disbursements when paid.

Total rental payments made during the fiscal year ended June 30, 2019 amounted to **\$250,383**. Future annual basic rental payments under operating lease during the next years at June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	\$ 312,647
2021	312,647
2022	312,647
2023	312,647
2024	<u>312,647</u>
	<u>\$ 1,563,235</u>

7. **CONTINGENCIES**

Federal Awards

The Department is a grantee in various Federal Financial Assistance Programs funded by the Federal Government. Entitlement to the resources is generally based on compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes.

Substantially all grants are subject to financial and compliance audits by the grantor agencies. All disallowed costs as a result of these audits become a liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Department's local funds.

The Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2019 disclosed some instances of noncompliance with applicable laws and regulations and internal accounting and administrative control structure.

Since the Department's statement of net assets is not presented, no provision for any liability has been reported for possible federal claims for refunds of those grant funds. The amount, if any, of expenditures which may be disallowed cannot be determined at this time.

Litigations and claims

The Department is a defendant in lawsuits arising in the normal course of operations. The Commonwealth of Puerto Rico Act 104 of June 30, 1955, as amended, establishes that any claims and lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, or against any of its employees, directors, majors, and others, may be represented by the Department of Justice of the Commonwealth of Puerto Rico.

Any adverse claim to the defendants is to be paid by the General Fund of the Commonwealth. However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from public corporations, governmental institutions, or municipalities of the defendants.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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8. HURRICANES IRMA (DR-4336) AND MARIA (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost \$3.9 million dollars in public assistance grants have been obligated.

Just two weeks after Hurricane Irma, on September 17, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately \$508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses.

In order to respond to the catastrophic events mentioned before, the Federal Emergency Management Administration (FEMA) made an obligation of funds of **\$11,331,205** million (from which **\$10,897,684** are related to hurricane Maria and **\$433,521** are related to hurricane Irma), to provide funding to the Department for emergency protective measures uses of force account equipment; emergency work labor, equipment material and rental; uses of force account labor; contracts for debris removal, sediment and sand; contracts for repair critical infrastructure to prevent flooding; contracts for temporary repair of electric substation; and contracts for temporary repair of damage gate system in a touristic area.

During the fiscal year ended June 30, 2019, the Department received **\$6,280,188** related to reimbursements from FEMA as follows:

	Amount
DR - 4336	\$ 325,141
DR - 4339	<u>5,955,047</u>
	<u>\$ 6,280,188</u>

9. **SUBSEQUENT EVENTS**

In preparing these financial statements, the Management has evaluated significant transactions for potential recognition or disclosure through September 22, 2020 the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

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

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"), those faculties, functions, services and structures of the Environmental Quality Board (hereinafter "the **EQB**"), the Solid Waste Authority (hereinafter "the **ADS**") and the Program of National Parks attached to the Department of Recreation and Sports, (hereinafter "the **PNP**"), in order to streamline procedures, share government resources, achieve savings and make possible the outsourcing of certain functions or services.

As of the date of the financial statement, the Department has not finished the process of consolidation proposed on the Reorganization Plan. Accordingly, the accounting records and transactions of the Department, the EQB and the ADS are kept using different accounting systems and internal controls. Also, the Department, the PNP and the EQB uses the cash method basis of accounting, while ADS uses the accrual method of accounting for financial statement presentation.

On July 1st, 2019, the Puerto Rico Treasury Department created a set of accounts to recognize the transactions of the EQB as a part of the Department on the PRIFAS Accounting System in order to consolidate the accounting records as a part of the Reorganization Plan.

Also, on September 6, 2019, the Secretary of the Department issued an Administrative Order No. 2019-04 to establish the process to finish the reorganization of the Department under the provisions of Law No. 171-2018.

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Statement of Cash Receipts and Cash Disbursements (Continued)
For the Fiscal Year Ended June 30, 2019

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9. SUBSEQUENT EVENTS (CONTINUED)

During fiscal year 2019-2020, the Federal Emergency Management Administration (FEMA) made an obligation of funds of **\$29,365,677** under DR-4339 (Hurricane Maria), to provide funding to the Department for the following:

Project Description	Amount	Date Awarded
Contract for security provided at damage pumps stations throughout the island	\$ 446,208	04/29/2020
Contract to provide and operate temporary pumps during permanent repair works for the disaster damaged pumps	27,034,045	10/11/2019
Direct administrative costs	<u>1,885,424</u>	03/06/2020
	<u>\$ 29,365,677</u>	

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES**

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019**

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
U.S. Department of Agriculture				
Forest Service				
Direct Programs:				
Cooperative Forestry Assistance Program	10.664		\$ -	\$ 1,599
Urban and Community Forestry Program	10.675		-	5,387
Forest Legacy Program	10.676		-	29,776
Forest Stewardship Program	10.678		-	117,283
Forest Health Protection	10.680		-	3,863
			-	3,863
Sub-total for U.S. Department of Agriculture			-	157,908
U.S. Department of Commerce				
National Oceanic and Atmospheric Administration				
Direct Programs:				
Inter-jurisdictional Fisheries Act of 1986	11.407		-	17,640
Coastal Zone Management Administration Award	11.419		-	1,940,372
Coastal Zone Management Estuarine Research Reserves	11.420		-	397,119
Cooperative Fishery Statistics	11.434		-	109,677
Southeast Area Monitoring and Assessment Program	11.435		-	188,253
Coral Reef Conservation Program	11.482		-	299,013
			-	299,013
Subtotal for U.S. Department of Commerce			-	2,952,074
U.S. Department of the Interior				
Fish and Wildlife Service				
Direct Programs:				
Fish and Wildlife Cluster:				
Sport Fish Restoration Program	15.605		-	2,371,881
Wildlife Restoration and Basic Hunter Education	15.611		-	1,225,360
Enhanced Hunter Education and Safety	15.626		-	4,586
			-	4,586
Sub-total for Fish and Wildlife Cluster			-	3,601,827
Cooperative Endangered Species Conservation Fund	15.615		-	235,279
State Wildlife Grants	15.634		-	98,531
			-	98,531
Sub-total for U.S. Department of Interior			-	3,935,637

Continues

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES**

**Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2019**

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Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Sub-recipients	Total Federal Expenditures
U.S. Environmental Protection Agency:				
Direct Program:				
Regional Wetland Program Development Grant	66.461		-	7,930
Sub-total U.S. Environmental Protection Agency			-	7,930
U.S. Department of Homeland Security				
Direct Programs:				
Boating Safety Financial Assistance	97.012		-	645,798
Predisaster Mitigation Grant Program	97.047		-	179,170
Home Land Security Grant Program	97.067		-	112,430
Pass-through the Central Office of Recovery, Reconstruction and Resilience (COR3):				
Disaster Grant Public Assistance	97.036	NAV	-	1,687,850
Sub-total for U.S. Department of Homeland Security			-	2,625,248
Grand Total of Expenditures of Federal Awards			<u>\$ -</u>	<u>\$9,678,797</u>

See Notes to the Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

1. **BASIC OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the **Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico** (the Department) under programs of the federal government for the fiscal year ended June 30, 2019. The information in this Schedule 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*. Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not purport to present the financial position, changes in net assets, or cash flows of the Department.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis method of accounting. It is drawn primarily from the Department's internal accounting records, which are the basis for the Department's Statement of Cash Receipts and Cash Disbursements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local, and Indian Tribal Governments* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 digits numbers are assigned by numerical sequence. State or local government redistributions of federal awards to the Department, known as "pass-through awards" should be treated by the Department though they were received directly from the federal government.

3. **CLUSTER**

A cluster of programs means federal programs with different CFDA numbers that are defined as a cluster of programs, because they are closely related programs that share common requirements. The Schedule includes the following cluster:

Agency	Federal Program	CFDA Number
U.S. Department of Interior	Sport Fish Restoration Program	15.605
	Wildlife Restoration and Basic Hunter Education	15.611
	Enhanced Hunter Education and Safety	15.626

COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2019

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4. **INDIRECT COST RATE**

The Department has not elected to use the 10% of minimis indirect cost rate allowed under the 200.414 Indirect (F&A) costs of the Uniform Guidance. However, for the year ended June 30, 2019, the Department has negotiated an indirect cost rate of **19.51%** with the U.S. Department of Interior.

5. **RELATIONSHIP TO THE STATEMENT**

Expenditures included in the Schedule agree with the amounts included in the accompanying Statement of Cash Receipts and Cash Disbursements.

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

**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**

**Honorable Secretary
Commonwealth of Puerto Rico
Department of Natural and
Environmental Resources
San Juan, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Cash Receipts and Cash Disbursements (the Statement) of the ***Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico***, (the Department) for the fiscal year ended June 30, 2019, and the related notes to the Statement, and have issued our report thereon dated September 22, 2020.

Our report on the Department statement included an emphasis of matter paragraph indicating that the Department has evaluated the possible effects of the budgetary constraints and liquidity risk being faced by the Commonwealth of Puerto Rico, on its statement, and has concluded that, as of June 30, 2019, the Department will continue to operate as a going concern for a period not less than twelve months after such date.

Internal Control over Financial Reporting

In planning and performing our audit of the Statement, we considered the Department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department's Statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **2019-01**, **2019-02**, **2019-03** and **2019-04** that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2019-02** through **2019-04**.

Department's Response to Findings

Department's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Department's response was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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



IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
September 22, 2020

The Stamp Number E417178 was
affixed in the original of this Report.

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

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

**Honorable Secretary
Commonwealth of Puerto Rico
Department of Natural and
Environmental Resources
San Juan, Puerto Rico**

Report on Compliance for Each Major Federal Program

We have audited the ***Department of Natural and Environmental Resources of the Commonwealth of Puerto Rico*** (the Department), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Department's major federal programs for the fiscal year ended June 30, 2019. The Department's major federal programs are identified in the summary of auditor's 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 Department'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, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 Department'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 Department's compliance.

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Basis for Qualified Opinion on Major Programs

As indicated in the following table and described in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for Department to comply with the requirements applicable to that program.

Federal Awarding Agency	Federal Program	Compliance Requirement	Finding No.
U.S. Department of Commerce	Coastal Zone Management Administration Award – CFDA No. 11.419	Equipment and Real Property Management	2019-02
US Department of Interior	Fish & Wildlife Cluster – CFDA No. 15.605, 15.611 & 15.626	Equipment and Real Property Management	2019-02
	Fish & Wildlife Cluster – CFDA No. 15.605, 15.611 & 15.626	Earmarking	2019-03

Qualified Opinion on Major Programs

In our opinion, except for the non-compliance described in the Basis for Qualified Opinion paragraph, the Department 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 the major programs described in the preceding paragraph for the fiscal year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instances of non-compliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items **2019-02** through **2019-04**. Our opinion on each major federal program is modified with respect to these matters, except for item **2019-04**.

The Department's response to the non-compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Department 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 Department'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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questions Costs as items **2019-02**, **2019-03** and **2019-04** that we consider to be material weaknesses.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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


IRIZARRY, RODRIGUEZ & CO., PSC

San Juan, Puerto Rico
September 22, 2020

The Stamp Number E417179 was
affixed in the original of this Report.

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES**

**Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019**

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued	Unmodified
Internal control over financial reporting:	
1. Material weakness identified?	Yes
2. Significant deficiencies that are not to be considered material weakness?	No
3. Noncompliance material to financial statement noted?	No

Federal Awards

Internal control over major programs:	
1. Material weaknesses identified?	Yes
2. Significant deficiencies that are not to be considered material weakness?	No
3. Type of auditor’s report issued on compliance for major program?	Qualified
4. Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516?	Yes

Identification of Major Programs:

Name of Federal Program or Cluster:	
1. Coastal Zone Management Administration Award	11.419
2. Coral Reef Conservation Program	11.482
3. Fish & Wildlife Cluster	15.605, 15.611 & 15.626
4. Disaster Grant Public Assistance	97.036
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as a low-risk auditee?	No

SECTION II – Financial Statements Findings

Finding Reference 2019-01

Requirement: Accounting System

**Type of Finding: Internal Control over Financial Reporting and on Compliance and Other Matters-
Material Weakness (MW)**

This finding is similar to prior year finding 2018-01

Condition

The Treasury Department of the Commonwealth of Puerto Rico provides accountings services to the Department through the Puerto Rico Integrated Financial Accounting System (PRIFAS). Accordingly, many transactions and adjustments might be posted after applicable closing with retroactive effect since information is not readily available for analysis because of the delays in the processing of information through PRIFAS. As a result, the Department may not reconcile on a timely basis, the accounting transactions in their system with the ones recorded in (PRIFAS) as required by Regulation Number 49 of March 20, 2007 of the Government of Puerto Rico. Financial transactions not recorded on a timely basis affect the classification and timing of transactions among funds of the receipts and disbursements reported in the financial statement. In addition, the Department's record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

Also, as part of our audit procedures over federal expenditures related to the Disaster Grants-Public Assistance program, we noted that non-federal expenditures amounting to **\$3,441,875**, approximately, were accounted for in the federal fund. Adjustments for the reclassification of funds were proposed and approved by the Department's management for presentation in this report.

Criteria

2 CFR 200 Subpart D, Section 200.302, establish the following:

- a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

SECTION II – Financial Statements Findings (Continued)

Finding Reference 2019-01 (Continued)

Criteria (Continued)

- b) The financial management system of each non-Federal entity must provide for the following:
1. Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
 2. Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
 3. Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
 4. Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.
 5. Comparison of expenditures with budget amounts for each Federal award.
 6. Written procedures to implement the requirements of § 200.305 Payment.
 7. Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of this part and the terms and conditions of the Federal award.

SECTION II – Financial Statements Findings (Continued)

Finding Reference 2019-01 (Continued)

Effect

The accounting records currently used by the Department contain substantially all financial events; however, the records might not provide on a timely basis adequate financial reports. It may cause delays in the preparation and submission of adequate financial reports to management and federal agencies.

Cause

This situation is caused because the Department does not have an integrated accounting system to account for funds awarded to them.

Questioned cost

None

Recommendation

We believe that the Department needs to significantly reduce the use of external (Excel) spreadsheets and shift toward an integrated business software system to properly account for and summarized all accounting and financial data. An integrated system would eliminate redundant processing and improve the Department's access to information. The system must provide for periodic reporting of transactions and monthly verifications analysis and reconciliation of accounts and federal funds with the information and reports recorded in the Department of Treasury. This will require a sophisticated plan in coordination with the Puerto Rico Department of the Treasury for the implementation of an accounting and financial management system that allows for the preparation of financial information and reports required by the different oversight entities.

Auditee Response

See Grantee's Corrective Action Plan

SECTION III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2019-02

Federal Program: US Department of Commerce

Coastal Zone Management Administration
Award-CFDA No. 11.419

US Department of Interior:

Fish & Wildlife Cluster-CFDA No. 15.605, CFDA No. 15.611 & CFDA No. 15.626

Compliance Requirement: Equipment and Real Property Management

**Type of Finding: Internal Control/Compliance over Equipment and Real Property
Management -Material Weakness (MW)**

This finding is similar to prior year finding 2018-02

Condition

We do not have assurance on the completeness over property subsidiaries of the Department. Management is in the process of the installation of software for the record and update of the property owned by the Department, however, it is still no implemented. In addition, last physical count was made in September 2013 and up to the date of this report; the Department does not made a physical count of the equipment under the DRNA.

Criteria

As per 2 CFR 200.313(d)(l) - Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds the title, the acquisition date, and cost of the property, percentage age of federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any data including the date of disposal and sale price of the property.

As per 2 CFR 200.313(d) (2) -A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

SECTION III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference 2019-02 (Continued)

Criteria (Continued)

As per 2 CFR 200.313(d) (3) - A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated

Effect

Failure to maintain an adequate property subsidiary might cause errors and misuse of the equipment purchased with federal funds that may result in questioned costs, due to possible use of property for unauthorized activities.

Cause

The Department does not have the appropriate tools (equipment software and personnel) to create complete and accurate records of the equipment under the Department of Natural and Environmental Resources

Questioned Costs

None

Recommendation

The Department of Natural and Environmental Resources should finalize the implementation of the software acquired for the Property Department to create a report with all the fields required by the Federal Awarding Agencies and emphasize the importance of keep and maintains updated records of the equipment under the control of the Department. Also, the Department should take in consideration to include the physical inventory in their budget every two years to make a contract with an external party to make this physical count or establish an internal procedure in where the persons in charge in every location of the offices under the Department to take a physical inventory count with a standard worksheet to obtain a uniform report.

Auditee Response

See Grantee's Corrective Action Plan

SECTION III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding No. 2019-03

Federal Program: **U.S Department of Interior:**
15.605 Sport Fish Restoration Program
15.611 Wildlife Restoration and Basic Hunter Education
15.626 Enhanced Hunter Education and Safety

Compliance Requirement: **Earmarking**

Type of Finding: **Material Weakness in Internal Control (MW) and Instance of
Noncompliance (NC)**

This finding is similar to prior year finding 2018-03

Condition

As a result of our audit procedures, we were unable to ascertain that the Department complies with the earmarking requirement. The Department does not provided evidence that demonstrated a correct allocation of funds for the Recreational Boating Access subprogram.

Criteria

50 CFR § 80.61, established that a State Fish and Wildlife agency must be allocate 15 percent of its annual allocation for the Recreational Boating Access subprogram. Allocations of more or less than 15 percent require the approval of the Regional Director.

Effect

An improper system of internal controls over the earmarking requirements may cause increase on errors, inaccurate or incomplete data, and the inability to comply with the federal requirements.

Cause

The Department's record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category. The Department does not maintain adequate documentation that serves as evidence of the internal control process for the compliance with the earmarking requirements.

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

Finding No. 2019-03 (Continued)

Questioned Costs

None

Recommendation

We believe that the Department needs an integrated accounting system which provides the recording of the budget amount for each grant award approved by the Federal Agencies. Actual expenditures and outlays for each program or subprogram may be compared with budgeted amounts for a specific period as needed. In absence of this system, Management should implement internal controls in this area to ensure compliance with the applicable requirements.

Auditee Response

See Grantee's Corrective Action Plan

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

Finding No. 2019-04

Federal Program: U.S Department of Homeland Security
97.036 Disaster Grants- Public Assistance

Compliance Requirement: Reporting

Type of Finding: Material Weakness in Internal Control (MW) and Instance of
Noncompliance (NC)

Condition

In order to respond to the catastrophic damages resulting from Hurricane Irma and Hurricane Maria during the month of September 2017, the Federal Emergency Management Administration (FEMA) made obligations of funds to provide funding to the Department for emergency protective measures to insure continuity of services, protect lives and improved property.

Twelve (12) project worksheets (PW) were formulated and approved during fiscal year 2018 and five (5) project worksheets were approved for the fiscal year 2019. Scope of work included the use of force account equipment, force account labor and for contracts for debris removal and temporary repairs of critical infrastructure.

During fiscal year 2019, most of force account equipment related projects were reimbursed based on hour's usage of generator by FEMA 2017 equipment cost codes. Costs are eligible and supported with proper documentation, however, non-federal expenditures amounted to **\$3,183,315** were charged against these funds received and accounted for in the federal fund.

In addition, a total amount of **\$258,560** of non-federal expenditures were charged against funds received during this year, as reimbursement of a repair related project which cost were incurred in prior year. The PW was approved in fiscal year 2018 and eligible cost was paid with state funds in the same year for a total of **\$339,200**. Reimbursement was received in fiscal year 2019; however, there were not a reclassification of this cost from the state fund to the federal fund.

Accordingly, as part of our audit procedures over federal expenditures related to the Disaster Grants-Public Assistance program, we noted that non-federal expenditures amounting to **\$3,441,875**, approximately, were accounted for in the federal fund and reported in the Schedule of Expenditures of Federal Awards (SEFA). Adjustments for the reclassification of funds were proposed and approved by the Department's management for presentation in this report.

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

Finding No. 2019-04 (Continued)

Criteria

As established in the 2 CFR 200 Subpart F, section §200.510 (b), Schedule of Expenditures of Federal Awards Preparation, the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for Determining Federal Awards Expended.

Effect

The Schedule of Expenditures of Federal Awards may not contain the correct amount of federal expenditures based on the terms of the grants awards. Inaccurate information could provoke that financial statements are misstated.

Cause

Grant management or administration of all the project worksheets for this program was centralized in the Auxiliary Secretary of Administration Department. This department provides the required information to the Finance Department in order to facilitate the recording of expenditures related to each PW.

The Finance Department was relying on information sent by the Administration Department to record transactions in the general ledger according to the authorizations received from this department. Grant awards or PW's, were not properly interpreted to determine the proper amount to be reported as federal expenditure. Internal controls over reporting were not established to identify which state funds paid with federal reimbursements should be reclassified and accounted for as state expenditures.

Questioned Costs

None

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

Finding No. 2019-04 (Continued)

Recommendation

The Department must perform a regular fiscal monitoring over the Federal program transactions in order to provide reasonable assurance that all Federal transactions/programs are properly recorded and included on the SEFA. We believe that the Department needs an integrated accounting system to reach this goal. In absence of this system, Management should implement internal controls in this area to ensure compliance with the applicable requirements.

We also recommended that all individuals responsible for administering federal assistance programs within the Department receive continuing education and training in order to update their knowledge in proper grant administration and SEFA reporting requirements.

Auditee Response

See Grantee's Corrective Action Plan

Finding No. 2018-01: Accounting Records

Internal Control over Financial Reporting and on Compliance and Other Matters - Material Weakness (Repeated in 2017 Report, Finding No. 2017-01)

Condition: The Treasury Department of the Commonwealth of Puerto Rico provides accountings services to the Department through the Puerto Rico Integrated Financial Accounting System (PRIFAS). Accordingly, many transactions and adjustments might be posted after applicable closing with retroactive effect since information is not readily available for analysis because of the delays in the processing of information through PRIFAS. As a result, the Department may not reconcile on a timely basis, the accounting transactions in their system with the ones recorded in (PRIFAS) as required by Regulation Number 49 of March 20, 2007 of the Government of Puerto Rico. Financial transactions not recorded on a timely basis affect the classification and timing of transactions among funds of the receipts and disbursements reported in the financial statement. In addition, the Department's record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category.

Status: **Still prevails**

Finding No. 2018-02: Federal Programs Compliance – Equipment and Real Property Management

Internal Control/Compliance over Equipment and Real Property Management - Material Weakness (Repeated in 2017 Report, Finding No. 2017-02)

Condition: Accounting record does not provide assurance of the completeness over property subsidiaries of the Department. Management is in the process of the installation of software for the record and update of the property owned by the Department, however, it is still no implemented. In addition, last physical count was made in September 2013 and up to the date of this report; the Department does not made a physical count of the equipment under the DRNA.

Status: **Still prevails**

Finding No. 2018-03: Federal Programs Compliance – Earmarking

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

(Repeated in 2017 Report, Finding No. 2017-03)

Condition: As a result of our audit procedures, we were unable to ascertain that the Department complies with the earmarking requirement. The Department does not provided evidence that demonstrated a correct allocation of funds for the Recreational Boating Access subprogram.

Status: **Still prevails**

**COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
Summary Schedule of Prior Years Audit Findings (Continued)
For the Fiscal Year Ended June 30, 2019**

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2014-06	Federal Financial Report, Allowable Costs/Cost Principle	\$30,331	Condition partially corrected. No final determination has been received.
2015-05	Property and Equipment	None	Condition partially corrected
2015-09	Matching	\$119,084	Condition partially corrected. No final determination has been received.
2015-10	Allowable Costs / Cost Principles	\$390,797	Condition partially corrected. No final determination has been received.
2016-01	Accounting Records		Condition partially corrected during fiscal year 2017.
2016-05	Equipment and Real Property Management		Condition partially corrected during fiscal year 2017.
2017-01	Accounting Records System		Condition still prevails during fiscal years 2018 and 2019.
2017-02	Equipment and Real Property Management		Condition still prevails during fiscal years 2018 and 2019.
2017-03	Earmarking		Condition still prevails during fiscal years 2018 and 2019.



GOVERNMENT OF PUERTO RICO

Department of Natural and Environmental Resources

CORRECTIVE ACTION PLAN

Single Audit Report 2019

For the Fiscal Year ended June 30, 2019

FINDING	CORRECTIVE ACTION	STATUS	ESTIMATE DATE FOR COMPLETION	EMPLOYEE
<p>Finding Reference 2019-01 Requirement: Accounting System The Department does not have an integrated accounting system to account for funds awarded to them.</p>	<p>We have been informed that The Treasury Department of PR will implement an integrated accounting system (new PRIFAS version 9.2) that DNER will use once it is fully operational and Treasury Department set the date for DNER to do so. DNER will assure that this version include the modifications necessary to accommodate the merger of the EQB, SWA and NPP within the DNER and any associated changes to the new DNER organizational structure in accordance with the reorganization process mandates by Law No.171 of August 2, 2018.</p>	<p>Waiting for Treasury Department (DT) instructions.</p>	<p>TBA</p>	<p>Rafael Machargo, Secretary, Office of the Secretary</p> <p>Ana Ortiz/ Marjorie Araújo Acting Auxiliary Secretary of Administration and Finance Division</p>
<p>Finding Reference 2019-02 Equipment and Real Property The Department does not have the appropriate tools</p>	<p>DNER will be evaluating making a professional services contract to do the property inventory and it will be certified by the Property Manager in accordance with Department of Treasury regulations.</p>	<p>DNER will start the contract coordination once the election ban is over.</p>	<p>June 30, 2021</p>	<p>Ángel Vázquez Auxiliary Secretary of Administration, General Services Division and Wanda Lugo, Property Section</p>

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<p>(equipment software and personnel) to create complete and accurate records of the equipment under the Department of Natural and Environmental Resources.</p>	<p>Finding Reference 2019-03 Earmarking The Department's record-system does not provide a mechanism to ensure that costs do not exceed the budgeted level for each program activity or other budget category. The Department does not maintain adequate documentation that serves as evidence of the internal control process for the compliance with the earmarking requirements.</p>	<p>DNER is evaluating hiring a Coordinator for the FWS Coordination Office, which is the primary office that monitor the FWS proposals, projects, and the allocation for the different subprograms. Once the notification of the annual apportionment for the State is received by the DNER, the Coordination Office will calculate the 15 percent for the allocation to the Recreational Boating Access subprogram. A Wildlife and Sport Fish Restoration (WSFR) project database will be developed to organize and monitor the proposals, projects, and the allocation for the different subprograms.</p>	<p>DNER will start the hiring process once the election ban is over.</p>	<p>June 30, 2021</p>	<p>Yanira León, Director Office of Human Resources Damaris Delgado, Acting Auxiliary Secretary of Auxiliary Secretary of Conservation and Research</p>
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<p>Finding Reference 2019-04 Reporting Grant awards or PW's, were not properly interpreted to determine the proper amount to be reported as federal expenditure. Internal controls over reporting were not established to identify which state funds paid with federal reimbursements should be reclassified and accounted for as state expenditures.</p>	<p>The process to handle PW's funds will be revised and discussed among the DNER Secretary, the Administrative Coordinator and the Auxiliary Secretary of Administration in a meeting. A memorandum will be prepared to establish in written the process approved by the Secretary.</p>	<p>In progress</p>	<p>December 30, 2020</p>	<p>DNER Rafael Machargo, Secretary Ana Ortiz/ Marjorie Araujo Acting Auxiliary Secretary of Administration and Finance Division</p>
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Date: September 29, 2020

Prepared by: 
 Marjorie A. Araujo Avilés
 Finance Director

Approved by: 
 Ana T. Ortiz Rivera
 Acting Auxiliary Secretary of Administration