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Certified Public Accountants & Consultants

GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR

ENVIRONMENTAL QUALITY BOARD

FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico

We have audited the accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **Environmental Quality Board of the Government of Puerto Rico (EQB)** for the fiscal year ended June 30, 2010. This statement is the responsibility of the EQB's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statement, the **EQB** prepares its Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the financial statement of the **EQB** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of the **EQB**. They do not purport to, and do not, present fairly the financial position of the Government of Puerto Rico as of June 30, 2010, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of the **EQB** governmental funds, and the respective cash basis net changes thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico
INDEPENDENT AUDITORS' REPORT
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011 on our consideration of the EQB's internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the EQB taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects in relation to the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds taken as a whole.

CPA Diaz-Martinez, PSC

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Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 12, 2011



GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR
ENVIRONMENTAL QUALITY BOARD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND NET CHANGES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	Special Revenues Fund	Capital Projects Fund	Federal Grants Fund	Total Governmental Funds
CASH RECEIPTS:					
Appropriations from the Government of Puerto Rico.....	\$ 7,805,775	\$ 8,895,035	\$ -	\$ -	\$16,700,810
Federal Grants	1,706,312	-	-	34,033,602	35,739,914
Fines and Penalties.....	-	493,594	-	-	493,594
Total Cash Receipts	<u>9,512,087</u>	<u>9,388,629</u>	<u>-</u>	<u>34,033,602</u>	<u>52,934,318</u>
CASH DISBURSEMENTS:					
Air Quality Improvement.....	1,182,522	-	-	-	1,182,522
Analysis of Environmental Tests	1,178,762	-	-	-	1,178,762
Capital Improvement for Water and Sewing Projects.....	-	-	2,340,656	-	2,340,656
Clean Air Act Project	-	2,485,917	-	1,205,625	3,691,542
Emergency Response and Superfund Project ..	-	3,233,082	-	286,531	3,519,613
Environmental and Scientific Supporting.....	490,595	-	-	-	490,595
Environmental Emergencies	-	3,823	-	-	3,823
General Administration and Direction.....	2,974,133	6,638,168	-	-	9,612,301
Land Pollution Control	1,145,571	-	-	18,829	1,164,400
Pneumatic and Recycling Program	-	470,509	-	-	470,509
Oil Control	-	427,652	-	-	427,652
Pollution Control	507,385	-	-	-	507,385
Regional Services	1,654,351	-	-	-	1,654,351
Studies for Requests of Tax Exemptions	47,390	-	-	-	47,390
Water Quality Improvement.....	2,613,689	-	-	1,134,723	3,748,412
Subtotal	<u>11,794,398</u>	<u>13,259,151</u>	<u>2,340,656</u>	<u>2,645,708</u>	<u>30,039,913</u>
Pass-Through Entity (State Revolving Fund)....	-	-	-	33,105,466	33,105,466
Total Cash Disbursements	<u>11,794,398</u>	<u>13,259,151</u>	<u>2,340,656</u>	<u>35,751,174</u>	<u>63,145,379</u>
NET CHANGES	<u>(\$ 2,282,311)</u>	<u>(\$ 3,870,522)</u>	<u>(\$ 2,340,656)</u>	<u>(\$ 1,717,572)</u>	<u>(\$10,211,061)</u>

See accompanying Notes to this Statement.

1. FINANCIAL REPORTING ENTITY

A. Organization

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

B. Financial Reporting Entity

The accompanying financial statement includes all divisions whose funds are under the custody and control of the **EQB**. In evaluating the **EQB** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Codification of Governmental Accounting and Financial Reporting Standard, Section 2100.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **EQB's** financial statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **EQB** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **EQB**.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **EQB** indicate no organizations meet the criteria to be included as component units. Accordingly, this financial statement presents only the **EQB** as the reporting entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

The **EQB's** accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received and disbursement are recorded when the related cash payment is made. Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the **EQB's** financial statement. No long-term debt is reported in the **EQB's** financial statement. No accrued compensated absences are reported in the **EQB's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental fund column upon cash payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accounts of **EQB** are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds principally approved by the U.S. Environmental Protection Agency (EPA). These funds are composed for four programs which are described below. The accounts of the **EQB** are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

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

- **General Fund** – The general fund is the main operating fund of the **EQB**. It is used to account for all financial resources except those required to be accounted for separately.
- **Special Revenues Fund** – Accounts for proceeds received through fines and penalties imposed to entities in Puerto Rico to assure compliance with federal and local environmental laws; and resources received from Indirect Costs Reimbursement from the Environmental Protection Agency.
- **Capital Projects Fund** – Accounts for the financial resources for the improvements of aqueduct and sewing systems which are not financed by other funds.
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by the **EQB**.

Notes to the Financial Statement

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

B. Stewardship, Compliance, and Accountability

Budgetary Information

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

- a. Between November and December the **EQB** submits to the Office of Management and Budget of the Government of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
- b. At the beginning of the ordinary session of the Legislative Assembly of the Government of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Government. This proposed budget includes estimated expenditures and the means of financing them.
- c. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Government has the authority to make the necessary adjustments to the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by EPA. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C. Interfund Transactions

The EQB has the following type of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.

D. Risk Financing

The EQB carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Government of Puerto Rico instrumentalities. Also, principal officials of the EQB are covered under various surety bonds.

E. Accounting for Pension Costs

The EQB adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The EQB accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of the Codification, the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the EQB participate. The EQB is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

F. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The EQB has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

G. Future Adoption of Accounting Pronouncements

The GASB issued the following pronouncements that have effective dates after June 30, 2010:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

The EQB's financial statement was not affected by the implementation of these statements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

The EQB has not yet determined the effect this statement will have on the EQB's financial statement.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experience either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

The EQB's financial statement was not affected by the implementation of this statement.

3. CASH

Cash in Banks

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

The EQB's cash at June 30, 2010 are demand deposits in the Government Development Bank of Puerto Rico (GDB), and are recorded at cost, which approximates fair value.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the EQB has only deposit in bank accounts with GDB. Therefore, the EQB's management has concluded that the credit risk related to any possible loss related to defaults on the EQB's deposits is considered low at June 30, 2010.

3. **CASH** – continuation

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **EQB** manages its exposure to declines in fair values by deposit in bank accounts with GDB. Therefore, at June 30, 2010, the interest rate risk associated with the **EQB**'s cash is considered low.

Custodial Credit Risk

Custodial credit risk for cash is the risk that, in the event of the failure of a depository financial institution, the **EQB** will not be able to recover its cash or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2010, the **EQB** does not have any custodial credit risk balance. If there was any balance, it would be the bank balance of cash deposited at the Government Development Bank of Puerto Rico (GDB). These deposits are exempt from the collateral requirement established by the Commonwealth.

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. **EQB** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **EQB**'s deposits is considered low at June 30, 2010.

4. **LEASE COMMITMENTS**

The **EQB** rent its facilities through operating lease agreements with private entities. Rent disbursed under such lease agreements for the year ended June 30, 2010 amounted to approximately \$1,370,825.

5. **PENSION PLAN**

Description of the Plan

Employees of the **EQB** participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

5. **PENSION PLAN** – continuation

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable services.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first \$550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The EQB is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the ERS effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable services, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable services.

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% up to a maximum of 10%) of their monthly salary, and will be invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

5. PENSION PLAN – continuation

Contribution requirements are established by law and are as follows:

EQB	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Annual Contribution

The **EQB's** contributions during those years are recognized as total pension expenditures/expenses in the category of administration.

The amount contributed represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

6. CONTINGENCIES

Federal Awards – The **EQB** receives revenues from assistance under federal grant agreements. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the **EQB** may be required to reimburse the funds to the grantor or pass-through entity. Of the federal expenditures incurred during the Fiscal Year 2007-2008, the auditors determined that costs amounting \$6,080 were disallowed. As per EPA determination (EPA-OIG Audit Report Number 10-3-0076 of July 27, 2010), the amount of \$4,652 (\$6,080 X 76.51%) is disallowed. The **EQB** reimbursed this amount on August 31, 2010 with Check Number 4749 of August 12, 2010.

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

END OF NOTES

GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR
ENVIRONMENTAL QUALITY BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL EXPENDITURES
U.S. Department of Defense:			
Department of Defense and State Memorandum of Agreement	12.113		\$ 286,531
U.S. Environmental Protection Agency (EPA):			
State Revolving Fund Capitalization Grant.....	66.458		29,860,518
ARRA – State Revolving Fund Capitalization Grant (Cluster)	66.458		<u>3,909,768</u>
Total State Revolving Fund Capitalization Grant (Cluster)			<u>33,770,286</u>
Air Pollution Control Program Support.....	66.001		1,205,625
ARRA – Water Quality Management.....	66.454		233,913
Beach Monitoring and Notification	66.472		111,321
Hazardous Waste Management Program	66.801		18,829
ARRA – Leaking Underground Storage Tank Control Program.....	66.805		<u>124,669</u>
Total U.S. Environmental Protection Agency.....			<u>35,464,643</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$35,751,174</u>

See the accompanying Notes to Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activities of the **Environmental Quality Board of the Government of Puerto Rico (EQB)**. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of **EQB**, it is not intended to and does not present the financial position, or change in net assets of the **EQB**.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. The **EQB** reporting entity is defined in Note (1) (A) to the financial statement. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- C. Pass-through entity identifying numbers are presented where available and applicable.

3. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies. The reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act require informing on use Recovery Act funds provided through this award. This report is prepared in accrual basis and will has differences with the information reported on the Schedule, which prepared in cash basis.

4. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, **EQB** provided federal awards to subrecipients Puerto Rico Sewer and Aqueduct (PRASA) as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
State Revolving Fund.....	66.458	\$29,663,170
American Recovery and Reinvestment Act (ARRA) – State Revolving Fund (Cluster).....	66.458	<u>3,442,296</u>
TOTAL		<u>\$33,105,466</u>

Purpose

The Government of Puerto Rico Revolving Fund Operating Agreement (OA) establishes a mutual obligation relationship between the U. S. Environmental Protection Agency (EPA) and the Puerto Rico Environmental Quality Board (**EQB**) acting on behalf of the Government of Puerto Rico.

The purpose of this OA is to provide a framework of procedures to be followed by EPA and the Government in administering the Government's Water Pollution Control Revolving Fund (WPCRF) prescribed by Title VI of the Clean Water Act (CWA). This OA will continue from year to year and will be incorporated by reference into the annual State Revolving Fund Capitalization Grant (SRF) agreement.

4. SUBRECIPIENTS – continuation

Implementation

The Government agencies responsible for the conduct of the SRF program are the Puerto Rico Infrastructure Financing Authority (PRIFA), the Puerto Rico Aqueduct and Sewer Authority (PRASA) as well as any other eligible recipients, as agreed upon, and EQB.

EQB is designated by the Government as the authorized agency, which will be responsible for coordinating the total management of the SRF and will be the primary contact for dealing with EPA on SRF issues. EQB, as the designated instrumentality of the Government, is empowered to enter into capitalization grant agreements with the Regional Administrator, to accept capitalization grant awards made under Title VI, and, in conjunction with PRIFA, to otherwise manage the fund in accordance with the requirements of Title VI and objectives of the Act as established in the Puerto Rico Infrastructure Financing Authority Act, adopted June 21, 1988, and the Public Policy Environmental Act.

EQB will cause PRIFA to establish and maintain a separate account or set of accounts and, with the assistance of PRIFA, will manage the funds including the Government match and loan repayments.

Government Accounting and Auditing Procedures

EQB and PRIFA have established fiscal controls and accounting procedures sufficient to assure proper accounting procedures during appropriate accounting periods for payments received by the SRF, disbursements made by the SRF and fund balances at the beginning and at the end of the account period. Financial management policies and procedures shall be maintained by both EQB and PRIFA to assure adequate control of all funds flowing into and out of the SRF. Such policies and procedures shall include but not be limited to, account structure, operating procedures, financial reporting, and internal control and cash management procedures specific to the operation of the SRF. EQB is responsible for maintaining project source documents for maintaining project source documents and associated records related to all SRF disbursements for projects. EQB shall maintain appropriate source documentation for all administrative expenses. EQB, as recipient of the capitalization grant is responsible and will cause PRIFA to maintain the financial management integrity of SRF.

Repayment to the fund

EQB, in conjunction with PRIFA, agree that all principal and interest payments on loans and returns on invested SRF funds will be credited directly to the SRF and used as described herein and in the ACT and the SRF regulations. Repayments shall commence no later than one year after the completion of each project and all loans shall be fully amortized not later than 20 years after completion of each project.

Financial Administration: Direct and Indirect Costs

EQB will use an amount of the SRF up to four percent (4) of its capitalization grants to cover the Commonwealths Revolving Fund Program administration costs, including costs incurred by PRIFA. These monies will be used for reasonable and eligible direct and indirect costs. Indirect costs for either EQB or PRIFA must be based upon the EPA approved rate for the applicable period. Indirect costs are the SRF share of overhead costs such as office space and utilities salaries of supervisory and support personnel not working directly for SRF, office supplies and utilities not readily assignable to the project. Expenses of the SRF administration in excess of the amount permitted under the SRF regulations must be paid for from sources outside the SRF.

Fiscal Year 2010 Payments

Payments processed (Requests) PRASA 98%.....	\$33,105,466
EQB 2%	<u>664,820</u>
Total Disbursements	<u>\$33,770,286</u>

5. FEDERAL CFDA NUMBER

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

6. RELATIONSHIP TO STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND NET CHANGES

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

END OF NOTES



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

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico

We have audited the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **Environmental Quality Board of the Government of Puerto Rico (EQB)** for the fiscal year ended June 30, 2010, which collectively comprise the EQB's basic financial statement and has issued our report thereon dated December 12, 2011. 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.

Internal Control Over Financial Reporting

Management of EQB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the EQB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the EQB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EQB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiency in internal control over financial reporting that we consider to be material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the EQB's basic financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-II-1 to be material weakness.

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

Pedro J. Nieves Miranda, Esq., President
Environmental Quality Board of the Government of Puerto Rico
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the EQB's basic financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-II-1.

The EQB's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the EQB's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the EQB's management, the U.S. Environmental Protection Agency, and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 12, 2011





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico

Compliance

We have audited **Environmental Quality Board of the Government of Puerto Rico (EQB)**'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **EQB**'s major federal programs for the fiscal year ended June 30, 2010. **EQB**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **EQB**'s management. Our responsibility is to express an opinion on **EQB**'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 **EQB**'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **EQB**'s compliance with those requirements.

As described in item 2010-III-01 in the accompanying Schedules of Findings and Questioned Costs, the **EQB** did not comply with requirements regarding reporting that are applicable to the U.S. Environmental Protection Agency's Air Pollution Control Program Support, State Revolving Fund Capitalization Grant and **ARRA** – State Revolving Fund Capitalization Grant. Compliance with such requirements is necessary, in our opinion, for the **EQB** to comply with the requirement applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the **EQB** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

Management of **EQB** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Pedro J. Nieves Miranda, Esq., President
Environmental Quality Board of the Government of Puerto Rico
Page 2

our audit, we considered EQB's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 EQB's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discuss below, we identified certain deficiency in internal control over compliance that we consider to be material weakness and other deficiency that we consider to be significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-III-01 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-III-02 to be significant deficiency.

The EQB's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the EQB's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of the EQB's management, the U.S. Environmental Protection Agency, and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz-Martinez, PSC
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Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 12, 2011



PART III

FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiency (ies) identified? Yes None Reported

Type of auditors’ report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
66.001	Air Pollution Control Program Support
66.458	State Revolving Fund Capitalization Grant (Cluster)
66.458	ARRA – State Revolving Fund Capitalization Grant (Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$3,000,000

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	2010-II-01 (See FINDING REFERENCE NUMBER 2010-III-01)
TYPE OF FINDING	REPORTING PACKAGE OF SINGLE AUDIT
CRITERIA	OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
CONDITION	The EQB did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2010 during the required period.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2010-III-01
FEDERAL PROGRAM	AIR POLLUTION CONTROL PROGRAM SUPPORT (CFDA NO. 66.001) U.S. ENVIRONMENTAL PROTECTION AGENCY
AWARD NUMBER	A-00207873-O AND A00207872-0
FEDERAL PROGRAM	STATE REVOLVING FUND CAPITALIZATION GRANT (CFDA NO. 66.458) INCLUDING AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS U.S. ENVIRONMENTAL PROTECTION AGENCY
AWARD NUMBER	C6-72000199-0 AND 2W-72000209-2 (ARRA FUNDS)
COMPLIANCE REQUIREMENT	REPORTING
TYPE OF FINDING	MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS
CRITERIA	OMB Circular A-133, Subpart C, Section .320 (a), (c), state all the audit shall be completed and the Data Collection Form and Reporting Package shall be submitted to the Federal Audit Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.
CONDITION	The EQB did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2010 during the required period.
QUESTIONED COSTS	None noted.
CAUSE	During this fiscal year, they were working with the implementation of the FiMaS accounting system. Also, EQB had to lay off a significant amount of employees due to the implementation of Law #7 ("Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico") established on March 9, 2009 and the Law #70 ("Ley del Programa de Incentivos, Retiro y Readiestramiento") established on July 2, 2010. These processes delayed the availability of the information necessary to be included in the Financial Statement and Schedule of Expenditures of Federal Awards.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The delay in the implementation process of the FiMaS accounting system has maintained a constant reconciliation process between EQB and the Puerto Rico Treasury Department; therefore, this is a systemic deficiency.
EFFECT OR POTENTIAL EFFECT	These conditions limited the EQB to have reasonable assurance regarding the achievement of the internal control objective of reliable financial reporting to be submitted to audit procedures, and to determine the programs to be included in the Schedule of Expenditures of Federal Awards.
RECOMMENDATION	We recommend EQB to maintain accurate accounting records in order to comply with the provisions of the Single Audit Act.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2010-III-01 – continuation

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

Puerto Rico Environmental Quality Board (PREQB) implemented a new accounting system (FiMaS) to report the results of the transactions to the Puerto Rico Department of Treasury (PRDT). On March 2, 2011 EPA accepted the submission of the Software Validation Summary for FiMaS Project prepared by Nexvel Consulting, LLC. This implementation will help EQB to address the CAP established by EPA in 2001.

These factors will help PREQB to maintain accurate accounting records in order to comply with the provisions records in order to comply with the provisions of the Single Audit Act. PREQB will submit the single audit for the fiscal year 2009-2010 on December 2011 in order to comply with the provisions established in the Single Audit Act.

IMPLEMENTATION DATE December 2011

RESPONSIBLE PERSON Ms. Quebec Morro

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	2010-III-02
FEDERAL PROGRAM	ARRA – STATE REVOLVING FUND CAPITALIZATION GRANT (CFDA NO. 66.458) U.S. ENVIRONMENTAL PROTECTION AGENCY
AWARD NUMBER	2W-72000209-2 (ARRA FUNDS)
COMPLIANCE REQUIREMENT	ALLOWABLE COST/COST PRINCIPLE
TYPE OF FINDING	SIGNIFICANT DEFICIENCY
COMPLIANCE REQUIREMENT	ALLOWABLE COST/COST PRINCIPLE
CRITERIA	According to the State Revolving Fund Capitalization Grant awarded through the American Recovery and Reinvestment Act (ARRA), Grant Agreement 2W-7200209-0, between the US Environmental Protection Agency (EPA) and the Environmental Quality Board of Puerto Rico (EQB), programmatic condition No. 25 Payment to Consultants, establish the following: The EPA participation in the salary rate (excluding overhead) paid to individual consultants retained by recipients or by a recipient's contractors or subcontractors shall be limited to the maximum daily rate for a Level IV of the Executive Schedule (formerly GS-18) to be adjusted annually. This limit applies to consultation services of designated individuals with specialized skill who are paid at a daily or hourly rate. As of January 1, 2009, the limit is \$587.20 per day and \$73.40 per hour.
CONDITION	The rate of \$125 per hour instead of \$73.40 was stated in the agreement established between EQB and the Geologist Dr. Agamemnon Gus Pantel for services rendered in representation of Pantel del Cueto & Associates.
QUESTIONED COSTS	None noted
CAUSE	We noted the invoices #PDC-01-10-09-JCA, PDC-01-11-09-JCA and PDC-01-12-09 issued by the Geologist Dr. Agamemnon Gus Pantel for the months of October, November and December 2009, respectively, issued for the hourly rate of \$125 and amounting to \$7,437.50, as part of the request #3.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	Although these invoices were paid using the incorrect rate of \$125, the EQB's management fixed the situation in the next invoices paid included as part of request #4, by using the correct rate of \$73.40 and making the proper discount in such payments. The total amount paid for these invoices was \$1,297.10 for a total amount adjusted of \$6,140.40.
EFFECT OR POSSIBLE EFFECT	EQB would be incurring in a noncompliance acts related to the payment to consultant as established in the ARRA Grant Agreement before mentioned.
RECOMMENDATION	We recommend to the management to development and implementation of a specific internal control related to the payment to consultants. This control would be mitigating any risk involve in noncompliance related to the consultant's contracts establishment.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER 2010-III-02 – continuation

**RESPONSIBLE OFFICIAL'S
RESPONSE AND CORRECTIVE
ACTION PLANNED**

The contract execution and the registration for professional services are documented in a Standard Operations Procedure (SOP) developed by the EQB Legal Affairs Office (Contracts Execution & Registration Procedure). Such document also is included as Appendix E to the EQB Guidelines for Managing ARRA Grants and includes the details of EQB's contracting process for professional services.

Actually PREQB is reviewing that document to include not only the regulations of the Puerto Rico Department of Treasury also the federal regulations. EQB Legal Affairs Office will be submitting the revised procedures by February 2012.

In addition, the EQB Finance Division will review the SOP Accounts Payable Procedure for before issuing any payment contracts to be borne partly or wholly from federal fund must be verified the administrative conditions of the Cooperative Agreements. EQB Finance Division will be submitting the revised procedures by February 2012.

IMPLEMENTATION DATE February 2012

RESPONSIBLE PERSONS Mr. Aníbal Hernández Vega & Ms. Quebec Morro

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2008-2009

Finding Number 2009-III-01 **Reporting**
The EQB did not complete the single audit for the Fiscal Year 2008-2009 during the period established by the Single Audit Act Amendments of 1996.

CFDA Numbers ALL

Questioned Cost None

Auditee Comments The US Environmental Protection Agency, the cognizant agency hasn't issued the final determination.

Finding Number 2009-III-02 **Reporting**
The Financial Status Report for the two programs were not submitted on time to the EPA.

CFDA Numbers 66.001
66.605

Questioned Cost None

Auditee Comments The US Environmental Protection Agency, the cognizant agency hasn't issued the final determination.

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE