

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR
ENVIRONMENTAL QUALITY BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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		\$ 233,570
U.S. Environmental Protection Agency (EPA):			
PM 2.5 Ambient Air Monitoring Network	66.034		2,300
ARRA – Water Quality Management.....	66.454		205,148
ARRA – Capitalization Grants for Clean Water State Revolving Funds.....	66.458		22,249,317
Beach Monitoring and Notification	66.472		64,279
Performance Partnership Grant.....	66.605		7,486
Hazardous Waste Management Program	66.801		75,532
ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		<u>720,774</u>
Total U.S. Environmental Protection Agency.....			<u>23,324,836</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$23,558,406</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 EQB.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statement. 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, if any, 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
ARRA – Capitalization Grants for Clean Water State Revolving Funds.....	66.458	<u>\$21,863,131</u>
TOTAL		<u>\$21,863,131</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 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 Capitalization Grants for Clean Water State Revolving Funds agreement.

4. SUBRECIPIENTS – continuation

Implementation

The Government agencies responsible for the conduct of the SRF program are the Puerto Rico Infrastructure Financing Authority (PRIFA), 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 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 Government's State 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 fixed 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 from sources outside the SRF.

Fiscal Year 2011 Payments

Payments processed (Requests) PRASA.....	\$21,863,131
EQB	<u>386,186</u>
Total Disbursements	<u>\$22,249,317</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 – GOVERNMENTAL FUNDS

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

END OF NOTES



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, 2011, which collectively comprise EQB's basic financial statement and has issued our report thereon dated August 31, 2012. 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 **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 **EQB's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **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 deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 **EQB's** basic financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-II-1 and 2011-II-02 to be material weaknesses.

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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-II-1 and 2011-II-02.

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

This report is intended for the information and use of 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-MARTÍNEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
August 31, 2012





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, 2011. 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 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 EQB's compliance with those requirements.

As described in items 2011-III-01 and 2011-III-02 in the accompanying Schedule of Findings and Questioned Costs, EQB did not comply with requirement regarding reporting that is applicable to the U.S. Environmental Protection Agency's *ARRA – Capitalization Grants for Clean Water State Revolving Funds and ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program*, and with requirement regarding subrecipient monitoring that are applicable to the U.S. Environmental Protection Agency's *ARRA – Capitalization Grants for Clean Water State Revolving Funds*. Compliance with such requirements is necessary, in our opinion, for EQB to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

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 deficiencies in internal control over compliance that we consider to be material weaknesses 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-III-01 and 2011-III-02 to be material weaknesses.

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 2011-III-03 to be significant deficiency.

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 EQB's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of 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.



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