

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

**INDEPENDENT AUDITORS' REPORT AND
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED UNDER THE OMB CIRCULAR A-133)**

FOR THE YEAR ENDED JUNE 30, 2011

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

JUNE 30, 2011

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PART I - FINANCIAL SECTION

VALDES, GARCIA , MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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INDEPENDENT AUDITORS' REPORT

To the Secretary and Management of the
Department of Natural and Environmental Resources
Government of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Cash Disbursements of the Department of Natural and Environmental Resources of the Government of Puerto Rico (the Department) for the year ended June 30, 2011. This statement is the responsibility of the Department's management. Our responsibility is to express an 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 the Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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 opinion.

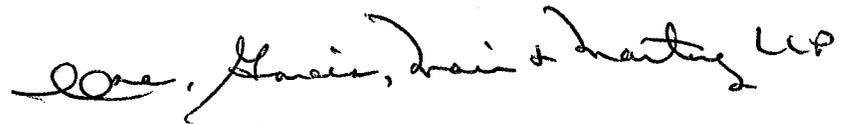
As described in Note 1 to the Statement of Cash Receipts and Cash Disbursements, the Department prepares its financial statement on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. It is intended to present the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of the Department. It does not purport to, and does not present fairly the financial position of the Department of Natural and Environmental Resources as of June 30, 2011, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above present fairly, in all material respects, the respective financial position of the Department as of June 30, 2011 in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2012 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 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 financial statement of the Department. The accompanying Schedule of Cash Disbursements of Federal awards on page 19 is presented for purposes of additional analysis as required by the 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. The Schedule of Cash Disbursements of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the financial statement as a whole.

As discussed in Note 4 to the financial statement, the Department is a party to various legal and other actions. We did not obtain responses from some legal counsels regarding the corroboration of information furnished by management concerning litigation claims and assessments and unasserted claims and assessments. Since the Department's balance sheet is not presented, no provision for any liability has been reported for the possible outcome of these legal and other actions.



San Juan, Puerto Rico
January 30, 2012

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to the original.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Federal Fund	Special Revenue Fund	Capital Projects Fund	Total
Cash Receipts:					
Legislative appropriations	\$ 40,052,238	\$ -	\$ -	\$ -	\$ 40,052,238
Federal grants	-	11,065,246	-	-	11,065,246
State special grants	-	877,142	8,423,628	-	9,300,770
Special grants	-	-	11,588,719	-	11,588,719
Total cash receipts	40,052,238	11,942,388	20,012,347	-	72,006,973
Cash Disbursements:					
Executive management	938,502	447,870	2,047,503	-	3,433,875
Administration	286,467	169,297	-	-	455,764
Water and mineral resources	2,752,120	-	4,629,299	5,915,813	13,297,232
Living resources	6,937,373	10,166,267	3,364,507	150,751	20,618,898
Regional coordination	5,121,685	-	-	113,277	5,234,962
Rangers	15,587,944	542,530	-	-	16,130,474
Environmental education and information	814,002	193,707	-	-	1,007,709
Planning	805,379	115,792	3,339,229	7,820	4,268,220
Permits, endorsements and specialized services	1,289,402	52,853	6,082,790	-	7,425,045
Management affairs	4,383,371	-	5,319,412	-	9,702,783
Consulting assistance	1,383,893	78,517	-	-	1,462,410
Total cash disbursements	40,300,138	11,766,833	24,782,740	6,187,661	83,037,372
Excess of cash receipts over (under) cash disbursements	\$ (247,900)	\$ 175,555	\$ (4,770,393)	\$ (6,187,661)	\$ (11,030,399)

See accompanying notes to Statement of Cash Receipts and Cash Disbursements.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Department of Natural and Environmental Resources (the Department) is an instrumentality and part of the executive branch of the Government of Puerto Rico. The Department was created by Law No. 23 of June 20, 1973 to manage, protect, conserve, and develop the natural resources and the environment of the island of Puerto Rico. Pursuant to the Reorganization Plan No. 4 approved in December 9, 1993, component units which were previously under other governmental departments or were created by the reorganization plan became part of the Department. The component units are: Culebra Conservation and Development Authority, the Solid Waste Authority, the Energy Affairs Administration, and the Mineral Resources Development Corporation. 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.

A summary of the Department's significant accounting policies consistently applied in the preparation of the Statement of Cash Receipts and Cash Disbursements follows:

Financial Reporting Entity

The financial statement presents the Department as a primary government.

The Department has three component units, as listed below, which are not included in the accompanying financial statement. The Energy Affairs Administration financial statements were not available. Also, the Mineral Resources Development Corporation has not been operating for several years.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. The Solid Waste Authority, (the Authority) is a public corporation and a governmental instrumentality of the Government of Puerto Rico, created by Law 70 of June 23, 1978, as amended. The main purpose of the Authority is to provide alternatives for the processing of solid waste in Puerto Rico. Also, in accordance with Law 70 of September 18, 1992, as amended, the Authority 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.

Pursuant to the Reorganization Plan Number 1 of 1993, the Authority is a component unit of the Department. The Secretary of the Department is the President of the Governing Board of the Solid Waste Authority.

2. The Mineral Resources Corporation (the Corporation) is an instrumentality of the Government of Puerto Rico created by Law 145 of July 2, 1975. Its principal objective consist of promoting the economic development of mineral resources, serving as an operational arm of the Government of Puerto Rico for exploring developing, producing, selling or other activities to take advantage of these resources. The Corporation has not been operating for several years.
3. The Energy Affairs Administration is an instrumentality of the Government of Puerto Rico, created by Article 7 of the Reorganization Plan Number 4, approved in December 9, 1993. The basic functions are to develop and recommend the energetic public policy, to import petroleum, to promote energy preservation, and to compile and analyze information about energetic problems for the government and private sector.

Complete financial statements of the component units can be obtained directly by contacting their administrative offices.

Administrative Offices

Solid Waste Authority
PO Box 40285
San Juan, PR 00940

Energy Affairs Administration
PO Box 9066600
San Juan, PR 00906-6600

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following is a summary of financial information of the Solid Waste Authority:

SOLID WASTE AUTHORITY
(a component unit of the Government of Puerto Rico)

CONDENSED STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS

Current assets

Cash and cash equivalents	\$ 3,433,084
Investments at fair value	19,314,478
Accounts receivable, net of allowance for doubtful accounts of \$2,879,381	4,207,503
Prepaid expenses	144,716
Restricted funds, cash and cash equivalents	<u>10,847,157</u>
	<u>37,946,938</u>

Non-current assets

Other assets	17,741
Capital assets, net	138,495,625
Investment in preferred stock	<u>500,000</u>
	<u>139,013,366</u>
	<u>\$176,960,304</u>

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOLID WASTE AUTHORITY
(a component unit of the Government of Puerto Rico)

CONDENSED STATEMENT OF NET ASSETS
(CONTINUED)

JUNE 30, 2011

LIABILITIES AND NET ASSETS

Current liabilities	
Credit lines	\$ 68,947,628
Accrued compensated absences	305,333
Accounts payable - trade	2,021,614
Accrued expenses	7,032,153
Due to other governmental entities	6,420,581
Deferred revenues	<u>3,885</u>
	<u>84,731,194</u>
 Non-current liabilities	
Loan payable	10,689,497
Due to other governmental entities	3,500,000
Accrued compensated absences	<u>388,607</u>
	<u>14,578,104</u>
 Commitments and contingencies	 <u>-</u>
 Net assets	
Invested in capital assets, net of related debt	76,485,838
Restricted for federal projects	176,741
Unrestricted	<u>988,427</u>
	<u>77,651,006</u>
	<u>\$176,960,304</u>

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SOLID WASTE AUTHORITY
(a component unit of the Government of Puerto Rico)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

Operating revenues	\$ 1,035,912
Operating expenses	<u>(20,515,422)</u>
Operating loss before non-operating revenues	(19,479,510)
Non-operating revenues	<u>9,971,804</u>
Change in net assets	<u>(9,507,706)</u>
Net assets, beginning of year	114,365,683
Restatement of net assets	<u>(27,206,971)</u>
Net assets, beginning of year, as restated	<u>87,158,712</u>
Net assets, end of year	<u>\$ 77,651,006</u>

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The Statement of Cash Receipts and Cash Disbursements of the Department is intended to present cash receipts and cash disbursements on only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of the Department.

The governmental funds are presented on a current financial resource measurement focus and cash basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to a) demonstrate legal and covenant compliance, b) demonstrate the source and use of liquid resources, and c) demonstrate how the Department actual experience conforms to the budget or fiscal plan.

The accounts of the Department are organized on the basis of funds. Each fund is accounted for by a separate set of accounts that comprises its cash receipts and disbursements.

The following are the fund types presented in the financial statement for the year ended June 30, 2011:

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.

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.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than expendable trusts of major capital projects) that are legally restricted to expenditures for specific purposes in accordance with grant agreements.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities. These funds are budgeted on a project rather than on an annual basis.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

Measurement focus refers to what is being measured in a fund's operating statement, while basis of accounting refer to the timing in which transactions are recognized in a fund's operating statement. The funds use a current financial resources measurement focus and a cash basis of accounting.

Basis of Accounting

The accompanying Statement of Cash Receipts and Cash Disbursements has been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis, receipts are reported when funds are collected instead of when earned, and disbursements are recognized when funds are paid rather than when fund liability is incurred. Therefore, the financial statement is not intended to present the Department's results of operations in accordance with accounting principles generally accepted in the United States of America.

Inventories

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

Property and Equipment

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

Interfund Transactions

The Department has the following types of transactions among funds:

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

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The Department's employees are entitled to 2.5 days per month up to a maximum of 60 days for vacations, and 1.5 days per month up to a maximum of 90 days for sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave is liquidated to employees with 10 years or more of service up to the maximum number of days. The payment of regular vacations and sick leave is recorded when paid.

As per Law Number 56 of August 29, 1996, for fiscal years beginning on July 1, 1997, the employee has the right to accumulate the excess of 60 days in vacations and 90 days in sick leave until December 31st of each year. The excess should be paid to the employee before March 31st of the following year. The accompanying Statement of Cash Receipts and Cash Disbursements presents the cash disbursed on this excess during the current fiscal year ended on June 30, 2011.

Insurance

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the departments and instrumentalities of the Government of Puerto Rico. The insurance coverage for the Department consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

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.

Date of management's review

The Department's management has evaluated subsequent events through January 30, 2012, the date the financial statements were available to be issued.

NOTE 2 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Government of Puerto Rico. All regular full time public employees of the Department under age fifty-five (55) at the date of employment become members of the System as a condition to their employment.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 2 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

The System provides retirement, death and disability benefits pursuant to Act. No. 447 of May 15, 1951, as amended. Disability retirement benefits are available to members for occupational and non-occupational disability benefits. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

No benefits are payable if the participant receives a refund of higher accumulated contributions. Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of twenty (20) years. In no case will the annuity be less than \$200 per month. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation, as defined, or if they have attained age fifty-five (55) will receive 75% of the average compensation, as defined.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Department on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

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. The Government of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 2 EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

Government legislation requires employees to contribute 5.775% for the first \$6,600 of their monthly gross salary and 8.275% for the salary in excess of \$6,600. The Department is required by the same statute to contribute 9.275% of the participant's gross salary. Total Departments' contributions to the above-mentioned plans during the year ended June 30, 2011 recorded as pension expenditures were \$2,844,459. The amount represents 100% of the required contribution.

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, P.O. Box 42003, San Juan, Puerto Rico 00940-2003.

NOTE 3 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 year cannot be determined. Also, total minimum future rental expenditures for operating leases for years subsequent to fiscal year 2011, were not determinable.

NOTE 4 CONTINGENCIES

Federal Awards

The Department is a grantee in various Federal Financial Assistance Programs. 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 year ended June 30, 2011 disclosed several instances of noncompliance with the internal control structure. Since the Department's balance sheet 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.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS

NOTE 4 CONTINGENCIES (CONTINUED)

Litigations

The Government of Puerto Rico Law 104 of June 30, 1955, as amended, established that any claims and lawsuits initiated against an agency or instrumentality of the Government of Puerto Rico, or against any of its employees, directors, majors, and others, may be represented by the Department of Justice of the Government of Puerto Rico. The legal counsels of both, the Department of Justice and the Legal Affairs Office of the Department, did not provide information on legal cases which are expected to have an unfavorable outcome to the Department. The Secretary of the Treasury of the Government of Puerto Rico has the discretion of requesting reimbursement of the funds disbursed for these purposes from the public corporations, governmental institutions, or municipalities of the defendants.

NOTE 5 CASH WITH FINANCIAL INSTITUTIONS AND WITH FISCAL AGENT (DEPARTMENT OF THE TREASURY OF THE GOVERNMENT OF PUERTO RICO)

The funds of the Department 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 "Accounting Law of the Government of Puerto Rico". The Treasury Department follows the practice of pooling cash and cash equivalents under the custody and control of the Secretary of the Treasury. The funds of the Department in such pooled cash accounts are available to meet its current operating requirements.

PART II - ADDITIONAL INFORMATION

VALDES, GARCIA , MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

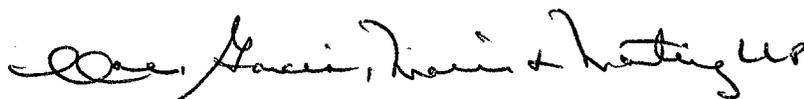
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INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION

To the Secretary and Management of the
Department of Natural and Environmental Resources
Government of Puerto Rico
San Juan, Puerto Rico

We have audited the Statement of Cash Receipts and Cash Disbursements of the Department of Natural and Environmental Resources (the Department) for the year ended June 30, 2011 for the purpose of forming an opinion on that statement taken as a whole. The Budgetary Comparison Schedule-General Fund is presented for purposes of additional analysis and is not a required part of the financial statement. In our opinion, the additional information referred to in the preceding sentence, present fairly, in all material respects, the financial position of the Department as of June 30, 2011 in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



San Juan, Puerto Rico
January 30, 2012

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to the original.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2011

Budgeted Amounts

	<u>Original</u>	<u>Revised</u>	<u>Actual Cash Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
CASH RECEIPTS:				
Legislative Appropriations	\$ (40,052,238)	\$ 40,052,238	\$ 40,052,238	\$ -
CASH DISBURSEMENTS:				
Executive management	1,026,000	1,026,000	938,502	87,498
Administration	292,000	292,000	286,467	5,533
Water and mineral resources	2,750,629	2,750,629	2,752,120	(1,491)
Living resources	6,937,373	6,937,373	6,937,373	-
Regional coordination	5,121,685	5,121,685	5,121,685	-
Rangers	15,587,944	15,587,944	15,587,944	-
Environmental education and information	794,000	794,000	814,002	(20,002)
Planning	804,236	804,236	805,379	(1,143)
Permits, endorsements and specialized services	1,110,000	1,110,000	1,289,402	(179,402)
Management affairs	4,383,371	4,383,371	4,383,371	-
Consulting assistance	1,245,000	1,245,000	1,383,893	(138,893)
Total cash disbursements	40,052,238	40,052,238	40,300,138	(247,900)
Excess of cash disbursements over cash receipts	\$ -	\$ -	\$ (247,900)	\$ (247,900)

See accompanying notes to Budgetary Comparison Schedule - General Fund

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO ADDITIONAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

NOTE A BUDGET PROCESS

Budget - As an instrumentality of the Government of Puerto Rico, the Department uses the following procedures in establishing the budget adopted for the general fund:

1. The Department's management prepares a budget project, which is submitted to the Government of Puerto Rico's Office of Management and Budget (PROMB).
2. After approval by PROMB, the budget project is incorporated into the Government of Puerto Rico's consolidated budget project submitted by the executive body of the legislature.
3. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project was prepared (the 1st of July of each year). Budget runs from the 1st of July thru the 30th of June each year.
4. Once the budget project is approved, legally adopted, and in operation, the Department's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Government of Puerto Rico's Department of Treasury.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the general fund.
6. As stated by the Constitution of the Government of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the Department in accordance with a cash basis of accounting which differs from accounting principles generally accepted in the United States of America. For financial statement purposes, the Department considers the funds authorized in order to present compliance with budget adopted, which lapses as of the end of the fiscal year.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

NOTES TO ADDITIONAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

Statutory (budgetary) accounting

The Department's total available spending authorization, which is considered its budget, is adopted in accordance with a statutory basis of accounting, which is not in accordance with the cash receipts and cash disbursements basis of accounting. Revenue is generally recognized when cash is received. Expenditures are generally recorded when the related disbursement is performed. Amounts required to settle claims and judgements against the Department and certain other liabilities are not recognized until they are paid.

PART III - SUPPORTING SCHEDULE AND REPORTS
RELATED TO STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND FEDERAL AWARD PROGRAMS

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

SCHEDULE OF CASH DISBURSEMENTS OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass - Through Grantor / Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Disbursements
<u>U.S. Department of Agriculture</u>			
<u>Forest Service</u>			
Direct Programs:			
Urban and Community Forestry Program	10.675	N/A	\$ 49,300
Forest Stewardship Program	10.678	N/A	<u>36,359</u>
Sub-total for U.S. Department of Agriculture			<u>85,659</u>
<u>U.S. Department of Commerce</u>			
<u>National Oceanic and Atmospheric Administration</u>			
Direct Programs:			
Interjurisdictional Fisheries Act of 1986	11.407	N/A	948
Coastal Zone Management Administration Awards	11.419	N/A	4,109,065
Coastal Zone Management Estuarine Research Reserves	11.420	N/A	545,685
Financial Assistance for National Centers For Coastal Ocean Science	11.426	N/A	58,500
Cooperative Fishery Statistics	11.434	N/A	86,803
Southeast Area Monitoring and Assessment Program	11.435	N/A	106,343
Marine Mammal Data Program	11.439	N/A	102,541
ARRA - Habitat Conservation	11.463	N/A	16,340
Unallied Science Program	11.472	N/A	<u>47,048</u>
Sub-total for U.S. Department of Commerce			<u>5,073,273</u>
<u>U.S. Department of the Interior</u>			
<u>Fish and Wildlife Service</u>			
Direct Programs:			
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605	N/A	4,018,464
Wildlife Restoration and Basic Hunter Education	15.611	N/A	<u>1,413,288</u>
Sub-total Fish and Wildlife Cluster			5,431,752
State Wildlife Grants	15.634	N/A	<u>206,099</u>
Sub-total for U.S. Department of Interior			<u>5,637,851</u>
<u>U.S. Department of Justice</u>			
Direct Program			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	N/A	<u>208,533</u>
<u>US Department of Homeland Security</u>			
Direct Program			
Boating Safety Financial Assistance	97.012	N/A	313,647
Passed-thru the Governor's Authorized Representative Office:			
Disaster Grants - Public Assistance	97.036	DR-PR-1798 DR-PR-1613 DR-PR-3306	<u>447,870</u>
Sub-total for U.S. Department of Homeland Security			<u>761,517</u>
Grand Total of Disbursements of Federal Awards			<u>\$ 11,766,833</u>

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
NOTES TO SCHEDULE OF CASH DISBURSEMENTS OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Cash Disbursements of Federal Awards includes the federal grant activity and balances disbursed of all federal award programs of the Department and is presented on the cash basis of accounting. Under this basis, receipts are reported when funds are collected instead of when earned, and disbursements are recognized when funds are paid rather than when fund liability is incurred. The basis of accounting is the same used to prepare the Statement of Cash Receipts and Cash Disbursements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 2 FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number included in this schedule was determined based on the program's name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

The CFDA number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Department, known as "pass-through awards", should be treated by the Department as though they were received directly from the federal government. OMB circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal award received as a subrecipient. Numbers identified as N/A are not applicable.

VALDES, GARCIA , MARIN & MARTINEZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF THE AICPA PRIVATE COMPANIES PRACTICE SECTION

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

To the Secretary and Management of the
Department of Natural and Environmental Resources
Government of Puerto Rico
San Juan, Puerto Rico

We have audited the Statement of Cash Receipts and Cash Disbursements of the Department of Natural and Environmental Resources (the Department) for the year ended June 30, 2011, and have issued our report thereon dated January 30, 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

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Cash Receipts and Cash Disbursements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Department's Statement of Cash Receipts and Cash Disbursements is 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that were reported to the management of the Department in a separate letter dated January 30, 2012.

This report is intended solely for the information and use of the Department's management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
January 30, 2012



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to the original.

VALDES, GARCIA , MARIN & MARTINEZ, LLP

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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

To the Secretary and Management of the
Department of Natural and Environmental Resources
Government of Puerto Rico
San Juan, Puerto Rico

Compliance

We have audited the compliance of the Department of Natural and Environmental Resources (the Department) with the types of compliance requirements described in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Department's major federal programs are identified in the summary of auditors' results 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 Department's management. Our responsibility is to express an opinion on the Department'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 the 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 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. Our audit does not provide a legal determination on the Department's compliance with those requirements.

As described in items 2011-III-I through 2011-III-III in the accompanying Schedule of Findings and Questioned Costs, the Department did not comply with requirements regarding Equipment and Real Property Management and Reporting that are applicable to the Coastal Zone Management Administration Awards, Coastal Zone Management Estuarine Research Reserves, Sport Fish Restoration Program, and Wildlife Restoration and Basic Hunter Education. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Department 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 year ended June 30, 2011.

Internal Control over Compliance

Management of the Department 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 our audit, we considered the Department's internal control over compliance with 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 the Department'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 the 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

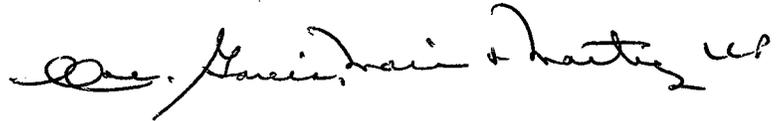
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 reasonable possibility that material non-compliance 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-II and 2011-III-III to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-III-I through 2011-III-IV to be significant deficiencies.

The Department'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 Department's response and accordingly, we express no opinion on the responses

We also noted certain other matters that were reported to management of the Department in a separate letter dated January 30, 2012.

This report is intended solely for the information and use of the Department's management, 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.



San Juan, Puerto Rico
January 30, 2012

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to the original.

PART IV - FINDINGS AND QUESTIONED COSTS

DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Audit Results

For the Fiscal year ended June 30, 2011

A. Summary of audit results:

Part I - Financial Statements

1. Type of audit report issued: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion

Internal control over Financial Reporting:

2. Significant deficiencies identified? Yes No
 3. Significant deficiencies reported as material weaknesses? Yes None reported
 4. Material noncompliance disclosed? Yes No

Part II - Federal Awards

Internal control over major programs:

1. Significant deficiencies identified? Yes No
 2. Significant deficiencies reported as material weaknesses? Yes None reported
 3. Type of audit report on compliance for major programs: Unqualified opinion Qualified opinion
 Adverse opinion Disclaimer of opinion
 4. Audit findings required to be reported in Section 510(a) of Circular A-133? Yes No

5. Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
11.419	Coastal Zone Management Administration Awards
11.420	Coastal Zone Management Estuarine Research Reserves
15.605	Sport Fish Restoration Program
15.611	Wildlife Restoration and Basic Hunter Education
97.036	Disaster Grants - Public Assistance

6. Dollar threshold used to distinguish Type A and Type B programs: \$353,005

7. Auditee qualified as low-risk? Yes No

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENTS FINDING

No matters reported.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

Reference Number	2011-III-I
Agencies	US DEPARTMENT OF COMMERCE AND US DEPARTMENT OF THE INTERIOR
Programs	Coastal Zone Management Administration Awards, Coastal Zone Management Estuarine Research Reserves, Sport Fish Restoration Program and Wildlife Restoration and Basic Hunter Education
CFDA Numbers	11.419, 11.420, 15.605 and 15.611
Regulation/ Requirement	Equipment and Real Property Management
Type	Compliance
Condition	<p>During our audit of the Department's controls and procedures related to the property and equipment records management, we requested evidence of property records and physical inventories. We noted the following:</p> <ul style="list-style-type: none">a. The Department did not provide a subsidiary of the property and equipment as of June 30, 2011.b. Management did not provide evidence of a bi-annual physical inventory taken in order to verify the correctness of the property and equipment subsidiary.
Criteria	<p>Law Number 230 of July 23, 1974, as amended, states that the custody, care and physical control of the public property is a responsibility of the Department head or its authorized representative. The dependencies will provide the Treasury Department the reports and documentation required.</p> <p>The General Services Administration Regulation Manual approved on March 12, 1999, establishes the internal procedures to be maintained by an agency related to property management.</p>

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

The Treasury Department Regulation Number 11 establishes controls and procedures for property management.

Subpart C, 49 CFR, 18.32 (d) (1), (2), (3) and (4) states that property records must be maintained to include a description of the property, a serial number, or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. A control system must be developed to ensure adequate safeguard to prevent loss, damage, or theft of the property.

Any loss, damage, or theft, shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition.

Cause The Department has not established adequate internal control procedures required by laws and regulations for the management of property and equipment. In addition, no monitoring procedures exist to assure the efficiency of the employees in charge of the management and control of such assets.

Effect The Department did not comply with the following laws and/or regulations: Law Number 230 of July 23, 1974, as amended, the General Services Administration Regulation Manual approved on March 12, 1999, and the Treasury Department Regulation about the Control and Accounting of the Property and the Subpart C, 49 CFR 18.32 (d) (1)(2) and (4).

Questioned Costs None

Recommendation We recommend the Department to improve its internal controls and procedures as follows:

- a. Maintain accurate and complete property records that include a description of the property, a property ID number, source of the property, acquisition date, original cost, Federal share of the cost, property location and disposition data.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS

- b. A physical inventory of the property must be taken as required and the results reconciled with the property records.
- c. The process must be adequately documented in a memorandum detailing the date, the employees involved in the process, who supervised the process (supervision must be performed by an employee not involved in the day to day operations of the area). Any differences found must be duly explained and documented.
- d. Adequate monitoring procedures must be implemented to assure the efficiency of the operations.

Management
Response and
Corrective
Action

The Department's management concurs with the finding. Auditors' recommendation will be considered as part of the corrective action plan development and implementation.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Reference Number	2011-III-II
Agencies	US DEPARTMENT OF COMMERCE AND US DEPARTMENT OF THE INTERIOR
Programs	Coastal Zone Management Administration Awards, Coastal Zone Management Estuarine Research Reserves, Sport Fish Restoration Program and Wildlife Restoration and Basic Hunter Education
CFDA Numbers	11.419, 11.420, 15.605 and 15.611
Regulation/ Requirement	Reporting
Type	Internal Control/Compliance
Condition	During our test of internal controls and compliance of reporting requirements, we requested management certain SF-270 reports to determine if financial reports are complete and accurate, were prepared in accordance with the required accounting basis and were submitted timely to the Federal agency. Such reports were not available for our examination.
Criteria	A-102 Common Rule - Financial reporting, ___41, Performance reporting, ___ .40 (b) and OMB Circular A-110 - Financial reporting, 2 CFR section 215.52 Performance reporting 2CFR section 215.51.
Effect	Reports required to be submitted to the respective federal agencies and its supporting documentation could not be examined.
Cause	The Department has not established adequate internal control procedures for the reporting requirement. In addition, management filing procedures did not allow for the proper safeguard of reports required by Federal agencies and supporting documentation.
Questioned Costs	None
Recommendation	Management must ensure that all required reports by Federal agencies and supporting documentation are properly maintained and available for examination.
Management Response and Correction Action	The Department's management concurs with the finding. Auditors' recommendation will be considered as part of the corrective action plan development and implementation.

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Reference Number	2011-III-III
Agencies	US DEPARTMENT OF COMMERCE AND US DEPARTMENT OF THE INTERIOR
Programs	Coastal Zone Management Administration Awards, Coastal Zone Management Estuarine Research Reserves, Sport Fish Restoration Program and Wildlife Restoration and Basic Hunter Education.
CFDA Number	11.419, 11.420, 15.605 and 15.611
Regulation/ Requirement	Reporting
Type	Internal Control/Compliance
Statement of Condition	During our test of internal controls and compliance of reporting requirements, we requested management certain SF-425 reports to determine if financial reports are complete and accurate, were prepared in accordance with the required accounting basis and were submitted timely to the Federal agency. For some instances, the reports examined were not in accordance with the accounting records. Also, some reports were not provided by management for our examination.
Criteria	A-102 Common Rule - Financial reporting, ___41; Performance reporting, ___40 (b) and OMB Circular A-110-Financial reporting, 2 CFR section 215.52; Performance reporting, 2 CFR section 215.51.
Effect	Reports required to be submitted to the respective Federal Agencies and its supporting documentation could not be examined and information in the reports were not in accordance with accounting records.

(Continues)

GOVERNMENT OF PUERTO RICO
DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

SECTION III - MAJOR FEDERAL AWARD PROGRAM FINDINGS AND QUESTIONED COSTS
(CONTINUED)

Reference Number 2011-III-III (CONTINUED)

Cause The Department has not established adequate internal control procedures for the reporting requirements to ascertain that reports are in accordance with accounting records. In addition, management filing procedures did not allow the proper safeguard of reports required by Federal Agencies and supporting documentation.

Questioned Costs None

Recommendation Management must ensure that reports submitted to Federal agencies are in accordance with the related accounting records. Also, all required reports by Federal agencies and supporting documentation should be properly maintained and available for examination.

Management Response and Corrective Action The Department's management concurs with the finding. Auditors' recommendation will be considered as part of the corrective action plan development and implementation.

GOVERNMENT OF PUERTO RICO
 DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2011

<u>Fiscal Year of Audit Reports</u>	<u>Findings (from prior auditors' report)</u>	<u>Comments</u>
08-02	<p>The Department's management must instruct and supervise the Finance Division Staff to maintain a proper and duly documented accounts receivable subsidiary, detailing contract amounts, payment due dates, payment dates and outstanding balance of receivable. There must be a responsible employee in the Finance Division who assures that collections processed in the Finance Division are duly accounted in the GL-015 report in the proper fund, account and period.</p>	Corrected
08-03	<p>The Department should improve its internal control and procedures in order to assure that disbursement vouchers include all the required supporting documents before the issuance of any payment.</p>	Corrected
08-04	<p>The Human Resources Division Director should establish adequate policies and procedures and internal controls to ascertain that all required personnel information and forms are gathered at hiring and during the employee normal course of employment.</p>	Included in the Management Letter

(Continues)

GOVERNMENT OF PUERTO RICO
 DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

<u>Fiscal Year of Audit Reports</u>	<u>Findings (from prior auditors' report)</u>	<u>Comments</u>
2010-II-II 2009-III-I 08-05 08-06 08-09 07-06 07-08 06-06	<p>The Department should improve its internal control and procedures as follows: Maintain accurate and complete property records that include a description of the property, a property ID number, source of the property, who holds title, acquisition date, original cost, federal share of the cost, property location and disposition data. Written procedures should be established for the property and equipment management and the physical inventory taken. A physical inventory of the property must be taken and the results must be adequately documented in a memorandum detailing the date, the employees involved in the process and who supervised the process (supervision must be performed by an employee not involved in the day to day operations of the area). Differences found must be duly explained and documented. The employee in-charge of the property subsidiary ledger must assure that for all property items exists and should update Model SC-1211. The employee in charge of the property subsidiary ledger must assure the all property items are identified with a property tag. Adequate monitoring procedures must be implemented to assure the efficiency of the operations.</p>	Not corrected

(Continues)

GOVERNMENT OF PUERTO RICO
 DEPARTMENT OF NATURAL AND ENVIRONMENTAL RESOURCES
 SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
 (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

<u>Fiscal Year of Audit Reports</u>	<u>Findings (from prior auditors' report)</u>	<u>Comments</u>
08-01		
08-08		
08-11		
08-12		
07-07		
06-07	The Department should establish internal controls and procedures in order to assure that accurate accounting records are maintained and current and complete disclosure of financial results are presented in the financial reports. Also, we recommend that the Department establish procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and are prepared in accordance with the required accounting basis.	Corrected
08-07		
08-10		
07-10		
06-10	Management should update the contract model according to federal requirements. Also, we recommend that the Department should improve its procedures to assure that all procurement transactions were conducted in a manner providing full and open competition.	Corrected
07-11	The Department should establish a comprehensive accounting system to properly account for and summarize all accounting and financial data. The system must provide for periodic reporting of transactions and monthly verification analysis and reconciliations of accounts and federal funds with the information and reports recorded in the Department of Treasury. In addition, a mechanized system should be used, and adequate controls must be established, to safeguard the accounting data from system's failure or outside damage.	Corrected