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Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

March 3, 2020

To the Commissioner Director
Puerto Rico Energy Bureau
San Juan, Puerto Rico

In connection with our audit of the basic financial statements of the Puerto Rico Energy Bureau (Bureau) as of and for the year ended June 30, 2019, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

Also, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatements, we performed test over the Bureau's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion or overall compliance with such provisions.

As a result of our evaluation, we noted certain areas where financial matters should be considered, procedures improved and administrative controls strengthened. This memorandum summarizes our comments and suggestions. These comments are not significant enough to be considered significant deficiencies as defined by SAS 112 "Communicating Internal Control Related Matters Identified in an Audit". This letter does not affect our report dated March 3, 2020 on the financial statements as of and for the year ended June 30, 2019.

We will hope to provide our services to you in the next fiscal year audit. Thank you for your trust in our Firm.

Cordially,

Ángel Alfredo López Vega, CPA
President

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A. Accounting Process

1) Audit adjustments and reclassifications

Condition

During the audit, we identified and proposed various adjusting and reclassifications entries in order to correct certain account balances.

Recommendation

We recommend that the Bureau establish monthly analysis and reconciliation procedures in order to maintain reliable data of the monthly financial reports and to reduce the number of adjustments identified during the audit of the financial statements.

B. Accounts Receivable

Condition

The Bureau does not maintain a subsidiary ledger for the accounts receivable balance recorded on account # 11100 – "Accounts Receivable Others". A detail of the accounts receivable recorded on that account was provided in an Excel spreadsheet format. Based on the procedures performed on the accounts receivable area, we noted the following situations:

1. The Bureau does not maintain monthly reconciliation procedures in order to verify the completeness of the outstanding accounts receivable balance. During the audit, we identified a difference in the balance of accounts receivable amounting to $89,958.99 as of June 30, 2019.

2. During the prior year audit, our firm proposed an adjustment amounting to $68,438.41 for unrecorded accounts receivable as of June 30, 2018. This adjustment was due to the same reason as the adjustment mentioned above. Although Management agreed with the adjustment, it was not entered into the system, so we had to propose the adjustment again during this year's audit.

3. During the fiscal year ended June 30, 2019, the Bureau received a payment amounting to $2,900,000 for the second installment of the annual appropriations from PREPA for the fiscal year ended June 30, 2018.

   Although the accounts receivable was previously recorded as of June 30, 2018, Management recorded the transaction as Program Revenues instead of reducing the accounts receivable previously recorded.

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B. Accounts Receivable (Continued)

Condition (Continued)

4. The Bureau has established billing procedures for statutory charges to eligible energy companies. However, we noted certain situation that shall be reviewed in order to enhance the internal control of the accounts receivable area. Following is a description of those situations:

   - There are no procedures established in order to identify that the 100% of the eligible energy companies are been billed as required by law.

Recommendation

We recommend to the management, the following:

1. A formal accounts receivable subsidiary aging should be established to account for outstanding invoices due from the eligible energy companies.

2. Management should review periodically the receivable subsidiary in order to identify the collectability of the outstanding invoices.

3. Monthly reconciliation procedures should be implemented in order to verified that all the eligible energy companies are been billed, the invoice sent to those companies are follow up for collection, and that all financial statement requested to the companies have been received by the Bureau.

C. Fixed Assets

Condition

1. The Bureau does not maintain a property subsidiary ledger in order to maintain a proper record of the capital assets owned and to maintain depreciation record of those assets. During the audit, a detail of capital assets owned by the Bureau was provided in an Excel spreadsheet format.

   The property ledger provided by client in an Excel format, contains several errors on the formula for the calculation of depreciation of each asset. Also, the report does not include the leasehold improvements and the additions of property acquired by the Bureau during the year ended June 30, 2019.

2. There are no procedures for the reconciliation of the detailed fixed asset (Excel format) with the general ledger on a monthly basis.

C. Fixed Assets (Continued)

Recommendation

We strongly recommend to the Bureau to implement a property subsidiary ledger to account for all capital assets owned, and to provide an accurate record of the depreciation expense and accumulated depreciation of each asset. Also, to prevent the need for major adjustments to the property accounts at the end of each year, we recommend that the general ledger fixed asset accounts be reconciled to the detailed records on a monthly basis.

D. Accounts Payable

Condition

The Bureau does not maintain a subsidiary ledger for the accounts payable balance recorded on account # 20010 – "Accounts Payable". A detail of the accounts payable recorded on that account was provided in a PDF format. Based on the procedures performed on the accounts payable area, we noted the following situation:

1. The Bureau does not maintain monthly reconciliation procedures in order to verify the completeness of the outstanding accounts payable balance.

2. During our search for unrecorded liabilities test, we noted several invoices for professional services provided before June 30, 2019 that were not recorded by Management. These invoices amounted to $268,107.

Recommendation

The Bureau should establish an accounts payable subsidiary ledger in order to account for all unpaid invoices from suppliers and contractors. Also, monthly reconciliation procedures with the general ledger should be implemented.

E. Budgetary Reports

Condition

We noted that the accounts names on the budgetary reports provided by the accounting system does not agree with the names provided by the Office of Management and Budget of Puerto Rico (OMB).

Recommendation

The budgetary reports provided by the accounting system should be amended in order to include the proper descriptions of the accounts as provided by the OMB.

F. Disbursements

Condition

We performed a Disbursement Test consisting of the review of 40 payments. During the process it was noted that certain documents did not include all the required signatures.

The following signatures were missing for purchase orders:

- Signed by "Asesor Confidencial" - 2 instances.
- Signed by NEPR Receptor (Informe de recibo) - 9 instances.
- Signed by NEPR President - 8 instances.
- Signed by Area Director (Informe de recibo) - 9 instances.

The following signatures were missing for Request and Justification purchase of materials:

- Signed by "Asesor Confidencial" - 2 instances.
- Signed by "Delegado Comprador" - 1 instance.
- Signed by NEPR President - 8 instances.

Recommendation

Management must establish a higher priority on complying with all required signatures on all corresponding documents before making payments.

G. Employees' files

Condition

We performed a Payroll Test consisting of the review of 8 employees' files. During the process it was noted that a total of 10 documents from 2 employees were not included in the files.

Recommendation

Management should review all their actual employees' files to ensure that all required documents that still missing is obtained. Additionally, Management must ensure that, whenever a new employee is contracted, all required documents are obtained.

H. Other

Condition

The Bureau has a claim receivable (Due from AFI) amounting to $336,055.14 for certain leasehold improvements incurred that, according to the lease contract of the facilities where it operates, the owner of the facilities must reimburse to the Bureau. Although the costs were incurred during the years 2015 and 2016, the claim receivable was not recognized in the accounting system as of June 30, 2019. A reclassification entry was proposed in order to account for the amount due from AFI.

Recommendation

The Bureau personnel shall be aware of all transactions agreed with other agencies. All transactions shall be analyzed and accounted for as required.

The information contained in this letter is intended solely for the use of those charged with governance of the Bureau and is not intended to be and should not be used by anyone other than these specified parties.

We sincerely appreciate the opportunity to provide services to the Bureau and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let us know.