López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

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

November 23, 2022

To the Commissioner of the
Puerto Rico Public Service
Regulatory Board
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, 2021, 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. This letter does not affect our report dated November 23, 2022 on the financial statements as of and for the year ended June 30, 2021.

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 in the areas of accounts receivable, accounts payable and accrued expenses.

Recommendation

1. 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.

2. Closing of accounting books procedures should be taken in place immediately at the end of an accounting period. Management should monitors and supervise the accounting adjusting entries are made, and then the income and expense accounts are "closed." at the end of the fiscal year. Management must develop an accounting manual, written procedures, instructions, and the assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that could result in inaccurate or untimely accounting records and increase supervision over the tasks performed by the accounting personnel.

B. Due from AFI/ OAT

Condition

The **Bureau** still has a claim receivable amounting to **$336,055.14** for certain leasehold improvements incurred on the facilities where it operates. In accordance to the lease contract entered with the owner of the World Plaza Building (the building), the Oficina para el Financiamiento de la Infraestructura en Puerto Rico (AFI), the amounts incurred to perform the leasehold improvements must be reimbursed to the **Bureau**. Although the costs were incurred during the years 2015 and 2016, no final resolution has been reach in relation to this claim.

In addition, on September 29, 2020, the Oficina para la Administración de Tribunales (OAT) adquired the building from AFI. Accordingly, OAT shall assume the obligation of the reimbursement of the amount paid and claimed by the **Bureau**.

Also, on July 30 2022, the **Bureau** renew the lease agreement with the OAT related to the office facilities. However, the amount of outstanding claim made by the **Bureau** and due from the OAT, was not considered as a part of the provisions of the lease agreement.

Recommendation

The **Bureau** shall continue its collection efforts in order to recuperate the balance of this claim.

C. Capital Assets

Condition

1. The **Bureau** does not maintain an actualized 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.

2. 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, 2021. Also, we noted that the capital assets report provided for our examination was incomplete.

   The report provided do not included new equipment acquired during the year amounting to **$129,838** and leasehold improvements made by **$49,990**.

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

Recommendation

- Management shall 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.

- Physical inventory inspections must be implemented and taken at least once one at end of the fiscal year. The results of physical inventory should be properly reconciled with the property records and with accounting books.

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

D. Accounts Payable

Condition

The **Bureau** does not maintain a subsidiary ledger for the accounts payable balance recorded at the end of the fiscal year. Based on the procedures performed on the accounts payable area, we noted the following situation:

D. Accounts Payable (continuec)

Condition (condition)

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

2. The balances amounting to **$524,325** recorded on books as of June 30, 2021, were not analyzed and adjusted. Those balances reflected amounts of accounts payable accrued during the fiscal year ended June 30, 2020.

3. During the audit the balance of accounts payable were adjusted by **$139,429** in order to reflect the correct amount as of June 30, 2021.

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.

Also, the **Bureau** should establish and develop and implement a monitoring process to review the accounting journal entries to ensure that accounts are properly and accurate recorded on the accounting books. Also, the **Bureau** should maintain effective communication channels with the external accountants in order to ensure accurate financial information.

Use of this Management Latter

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.