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

March 31, 2022

The Governing Board and the Executive Director
Municipal Revenue Collection Center (CRIM)
San Juan, Puerto Rico

In connection with our audit of the financial statements of the **Municipal Revenue Collection Center (the Center)** 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 financial statements and not to provide assurance on the internal control structure.

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

As a result of our audit, 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 March 31, 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. Capital Assets - Property and Equipment

We performed audit procedures to the detail and information of capital assets provided by **Center's** management for the fiscal year ended June 30, 2021. Based on these procedures, we noted the following situations:

- For various capital assets additions recorded in the capital assets module, the monthly depreciation expense was erroneously computed; the amount computed was the same as the annual depreciation.

- The useful life of leasehold improvements recorded in the capital assets module was not according to its category as established by the capital assets policy.

- An immaterial difference in the beginning balance of office equipment and computer equipment recorded in the capital assets module was identified. The amount is related to various assets that were retired or disposed during fiscal year 2020; however, the retirements were not recognized in the capital assets module as of June 30, 2021.

Recommendation

Capital assets perpetual records should be actualized periodically to account for all property and equipment owned by the **Center**. These records should be updated on a monthly basis with all purchases, transfers and retirement of property in order to obtain accurate information regarding capital assets owned by the **Center**. We recommend management to continue to evaluate the data generated by the capital assets module in order to identify and timely correct any situations as those mentioned above.

The capital assets module should provide the benefit of obtaining accurate data for the property and equipment owned by the **Center** as well as the annual depreciation expense and the balance of accumulated depreciation of those assets. Personnel shall be periodically informed and trained to properly account for these transactions. Finally, effective communication must exist between the accounting department and the property area in order to meet this goal.

B. Accrual for Compensated Absences

The accrued compensated absence report is not periodically actualized to properly recognize the outstanding balance of accrued compensated absences at interim accounting periods. These transactions are actualized and properly recorded in the **Center's** general ledger at the end of the accounting year as a result of the requirements of the annual external audit.

B. Accrual for Compensated Absences (Continued)

Recommendation

We recommend that management shall periodically actualize the outstanding balance of accrued compensated absences to properly account for all transactions of the **Center** on a timely basis and to maintain proper and complete accounting records.

C. Accounts Receivables – Commercial Banks and Uncollectible Tax Receivables

The balance of accounts receivables of $726,415 included in governmental funds' consist mostly of amounts due for services charged to financial institutions for access through the web to the **Center's** tax system and sale of maps. These accounts receivables included some invoices outstanding for a period of over 365 days. Most of them are related to financial institutions that closed operations. As represented by management, an allowance for bad debts was not considered necessary, since these accounts receivable have been negotiated with the Federal Deposit Insurance Corporation ("FDIC") for its collections.

Also, during the year, the **Center** does not perform an analysis for uncollectible receivables from real and personal property taxes at interim accounting periods. This analysis is performed at the end of the accounting year as a result of the requirements of the annual external audit.

Recommendation

Management should follow up to the FDIC for their final determination regarding these accounts receivables. Accordingly, an allowance for bad debts should be established or invoices should be eliminated from accounting books, if necessary.

The Finance Department should review the existing policy which states the process and criteria to be followed for estimating the **Center's** allowance for bad debts. These accounts should be evaluated periodically in order to make the proper decisions, that might be: 1) eliminate them from the accounting books; or 2) to encourage the personnel of the collection department to made better collections efforts to reduce the pass due accounts.

D. Puerto Rico Public Buildings Authority Debt

The **Center** has certain balances in dispute with the Puerto Rico Public Buildings Authority amounting to $3,569,252, related to the lease of various office spaces located in the municipalities of Aguadilla, Arecibo, Caguas, Carolina, Mayaguez and Ponce. This amount is not recorded in books due to discrepancies between each party. However, it is presented as a possible contingency in the notes to the basic financial statements.

D. Puerto Rico Public Buildings Authority Debt (Continued)

Recommendation

Management should provide special attention to this issue and take proper actions to reach a final agreement. Lease agreements have not been cancelled and this debt will continue to increase, resulting in a liability that would require future available financial resources for its payment, if the **Center** results unfavorable in future actions taken by the Authority.

E. Funds Not Received by the Center

Act No. 107 of August 14, 2020, as amended, provides for the distribution of the Municipal Public Works Fund, a fund that accounts for 2% of the collections from fines imposed under Act No. 22 of January 7, 2000, known as the Vehicle and Traffic Act of Puerto Rico, as amended. However, such funds are not being received by the Center.

Also, Act No. 162 of August 8, 2012 provides for certain additional funds to be distributed annually to the municipalities of Puerto Rico commencing with the fiscal year ended June 30, 2014. The additional funds amount to $25,000,000 per annum or the amount determined as a result of an independent audit to be annually performed by the Government Development Bank for Puerto Rico before the end of each fiscal year commencing with the fiscal year ended June 30, 2014. However, the **Center** did not receive these funds for any of the fiscal years elapsed since the enactment of Act No.162.

The **Center** entered in certain legal actions regarding the collection of those funds. However, as of June 30, 2021, no conclusive results were obtained from those actions.

Recommendation

We recommend the **Center** to enhance and continue with its efforts to make require the compliance with the provisions of all enacted laws that provide for funds to the **Center** for their distribution among the municipalities of Puerto Rico.

F. Disbursements Test

We performed a test of controls over 40 disbursements, to verify that transactions were supported by appropriate documentation and properly approved. As a result of our test we noted the following situations:

- One (1) disbursement amounted to $51,356 was erroneously paid to a vendor due to a false information received by the **Center** though an email. The situation is under investigation; however, a resolution about the case has not been received as of this date.

F. Disbursements Test (Continued)

Recommendation

The **Center**, through its Information System Department, should reinforce controls established over data security in order to reduce exposures to threats from internal and external sources and to mitigate possible fraud risks. Proper monitoring and supervision procedures should be followed by the Finance Department in order to identify an unsecure source of information and to safeguard the **Center's** assets.

G. Employee Files and Time Cards Detail

We selected a sample of 40 employees' files to examined procedures related to payroll disbursements, accrued compensated absences and documents that should be included in the employee file. As a result of our test, we noted that certain documents were not included and/or updated on the employee files. The following is a summary of the missing documents or information:

- Seven (7) I-9 forms were not signed by the employer.
- One (1) salary review form was not signed by the Supervisor.

Recommendation

The **Center's** Human Resources Department should review and update all employee files. A checklist should be maintained with a list of all required and necessary information to be included in the files.

Any missing documents should be requested from the employee. Internal controls should be implemented by the Human Resources employees and proper monitoring and supervision should be followed by the Department's Director.

H. Contracts Test

As part of our audit procedures, we perform test of controls over ten (10) contracts granted as of June 30, 2021, to verify that the files document the significant history of the contract. We examine that contracts were made in compliance with the applicable state law and requirements. As a result of our test, we noted the following situations:

- One (1) contract does not have signed the Certification of Legal Advice.
- Two (2) contracts do not include the Certification of No debt of Sales and Use Tax (IVU).
- One (1) contract present incongruence with the Debt Certification issued by the Treasury Department.

H. Contracts Test (Continued)

Recommendation

Proper monitoring and supervision procedures should be followed by the Legal Department. Information provided by the contractor should be evaluated for completeness and the Department should give follow up or take actions if any discrepancies are found. Documents must be properly documented in the files.

I. Retirement System - Additional Uniform Contribution

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of 2013, which amended Act 447 to provide for an Additional Uniform Contribution ("AUC"). The AUC will be financed by all participating employers (including the **Center**) of the ERS. Beginning with the 2014-2015 fiscal years until the 2032-2033 fiscal years, the AUC will be the uniform contribution certified by the external actuary of the ERS at least 120 days prior to the start of each fiscal year, as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1,000,000,000. Accordingly, ERS shall determine the amount of UC to be billed and paid by each employer during each fiscal year. Commonwealth laws provide for a subsidy of the AUC obligation, applicable to all participating employers (including the **Center**) of the ERS that the Puerto Rico Office of Management and Budget ("OMB") determines do not have financial capability to pay the AUC obligation. For the fiscal year 2016-2017, the ERS sent to the **Center** a bill dated July 12, 2016 of $2,457,864 related to the AUC. The **Center** alleged that the ERS do not comply with the terms of the Law No. 32 of 2013 related to the time established for the ERS to provide the amount to be paid during the fiscal year (120 days before the beginning of the fiscal year).

Accordingly, it is the understanding of the **Center**, that the amount to be paid to the ERS related to the AUC during fiscal year 2017 is the same amount aid during the previous fiscal year (2016). Based on this understanding, on January 27, 2017, the **Center** paid $455,678 to the ERS. The ERS disagree with the **Center's** position and is claiming the full payment of the amount billed. The **Center** plans to defend its position vigorously. However, due to the uncertainty of the outcome of this claim by the ERS, as of June 30, 2017, the **Center** made an obligation of $2,002,186. As of June 30, 2020, no final determination has been assessed in relation of this matter.

Recommendation

Management shall periodically follow up to the status of this claim by the ERS in order to provide proper accountability of its outcome.

J. Other matters

Claim to the Puerto Rico Land Authority

On September 9, 2010, the Court issued a final determination on a lawsuit between the **Center** and the Puerto Rico Land Authority (the Authority). Accordingly, the Authority shall pay the **Center** the amount of $12,117,630 (including $6,687,160 for interests and charges). During fiscal year 2015-2016, the **Center** received the amount of $1,076,085 related to this lawsuit. This amount was distributed to thirty (30) Municipalities implied in the lawsuit. Also, during fiscal year 2016-2017, the **Center** received the amount of $105,947, which was not distributed. As of June 30, 2021, the Authority owed to the **Center** the amount of $10,935,598 in connection with this determination.

Recommendation

Management shall periodically follow up and made collection efforts for the outstanding balance owed by the Authority.

Amounts Fully Reserved – Fiduciary Fund

The **Center's** fiduciary fund included accounts receivable balances amounting to $41,088,094 from several years ago. Most of these accounts have been reserved since prior years.

Recommendation

Management shall evaluate the status of those accounts in order to identify its possible collectability o to recommend a write off from the accounting records.

Monthly Municipal Advance Remittance Payments

During our examination of the monthly municipal advance remittance payments, we noted the following situations:

- For one (1) municipality, there was no evidence of authorization for the withholding of the contribution to ASES, neither to the withholding for the Juana Diaz case.

Recommendation

Management shall verify the procedures established for the processing of the monthly municipal advance remittance payments in order to identify that all transactions are performed as required and authorized by each municipality.

The information included on this letter is intended solely for the use of those charged with governance of the **Center** 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 **Center** 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.