ESCUELA DE ARTES PLASTICAS DE PUERTO RICO
MANAGEMENT LETTER
JUNE 30, 2015

BAKER TILLY PUERTO RICO, CPAs, PSC
Certified Public Accountants

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March 28, 2016

To the Board of Directors of
Escuela de Artes Plásticas de Puerto Rico
San Juan, Puerto Rico

In planning and performing our audit of the financial statements of Escuela de Artes Plásticas de Puerto Rico (the Institution) as of and for the year ended June 30, 2015, in according with auditing standards generally accepted in the United States of America, we considered the Institution's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the Institution's internal control in our letter dated March 28, 2016, contains our communication of significant deficiencies or material weaknesses in the Institution's internal control. This letter does not affect our report dated March 28, 2016, on the financial statements of Escuela de Artes Plásticas de Puerto Rico.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Institution's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Directors and the Management of Escuela de Artes Plásticas de Puerto Rico and others within the Institution, and is not intended to be, and should not be, used by anyone other than those specified parties.

Cordially,

Baker Tilly Puerto Rico, CPAs, PSC

BAKER TILLY PUERTO RICO, CPAs, PSC

SEGREGATION OF DUTIES

During our current year-end audit procedures, we noted a limited segregation of duties. Segregation of duties is one of the most integral components of an internal control system. Segregation of duties insures that no one individual has access to resources (e.g., cash and investments) if the individual also is responsible for processing, summarizing and reporting information or authorizing transactions. Certain functions, such as segregating cash receipts and cash disbursements from anyone with the ability and/or responsibility to record these cash transactions in the general ledger and/or reconcile accounts in the general ledger provides a mechanism for preventing or detecting on a timely basis any errors or irregularities. Currently, the Institution needs improvement in the segregation of duties to the limited staffing of the finance department.

We recommend that the organization of the finance department and the functions assigned to the individual staff be reviewed and possibly modified to improve internal controls and the segregation of duties.

POLICIES AND PROCEDURES MANUAL

During our audit we noticed that the Finance Department has not developed a formal manual of their policies and procedures. The manual should include policies and procedures describing the daily operation of the Finance activities. The Finance area should develop the policies and procedures together with written job descriptions with the purpose of increasing the effectiveness and reducing the supervisory time incurred.

Some of the benefits of having a manual of policies and procedures are:

1. Will establish proper procedures to develop an adequate internal control.
2. Will help in providing adequate training to the finance personnel.
3. Will establish the basis for any change required to a previously established procedures.

The manual must have:

1. A detail list of all the required documents and/or forms used by the Institution.
2. Detail of the procedures for all proper transactions and the different authorizations levels.
3. Descriptions of all the instructions of the different reports established by the Institution.
4. Flowchart of the finance department.

ACCOUNTING SYSTEM

During our audit we noted that most the procedures used by the Finance Department are being done on a manual basis even when they have a computer system, causing delays in obtaining timely financial information for the audit.

We have recommended to update their accounting software based on the current requirements in order to significantly reduce the manual processes.

INSTITUTION'S ACCOUNTING

We noted that the Institution is not preparing monthly financial statements. This is a necessary report so that the Institution can make the appropriate decision-making based on the financial results on a periodic basis.

FIXED ASSETS ACCOUNTING

At the present time, fixed asset records are not maintained by the Institution. We recommended that the Institution maintain detailed fixed asset records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets. Specifically, fixed asset records should include the following data:

- Description of the asset
- Cost, voucher number, and vendor name
- Date placed in service
- Estimated useful life
- Depreciation method (for both accounting and tax purposes)
- Depreciation expense and accumulated depreciation for the year (for both accounting and taxes purposes)
- Date asset retired and selling price if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are significant in costs. Better assessment and evaluation could also made regarding the reliability of certain fixed assets and the need for replacements, etc.