TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

Rec 4/20/2016 [illegible]

March 23, 2016

To the Board of Directors
Puerto Rico Land Authority
San Juan, Puerto Rico

We have audited the basic financial statements of Puerto Rico Land Authority (from now on the Authority), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements and have issued our report thereon dated March 23, 2016.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in 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.

We have issued our "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards", our "Independent Auditor's Report on Compliance with Requirements That Could Have Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Findings and Questioned Costs.

Included herein are matters related to internal control of state funds, which we believe need to be communicated to those charge with governance within the entity:

1. **DEPOSIT FOR SALES OF LAND ACCOUNT**

   CONDITION: We obtained a detail of account number 4322000, named "Deposits on Sales of Land", recorded in the Puerto Rico Land Authority's general ledger for $8,227,325. The detail presents transactions originating a long time ago, some of them since 1974, including small accrued balances to individuals and corporations for deposit payments for future land purchases. Transactions posted in this account needs to be analyzed to determine which transactions are valid and outstanding, which ones need to be cancelled and which ones needs adjustment because the sale was performed, in order to determine the correct balance for deposits outstanding for sales of land.

   RECOMMENDATION: To perform such analysis on the account, and designating the necessary resources from accounting and legal departments, to complete the engagement. Balances left in account as outstanding must be supported by legal documentation, such as a title deed or expropriation documents.

2. PHYSICAL INVENTORY OBSERVATION OF CAPITAL ASSETS

CONDITION: A physical inventory of capital assets has not been taken for many years. This must be done, at least once every two years, and inventory items compared to items recorded on capital assets records maintained by the Authority. Since it has not been done for some time, this physical inventory procedure must include all capital assets items, including buildings and improvements, infrastructure, industrial equipment, machinery and equipment, vehicles and furniture and fixtures

RECOMMENDATION: First, the Authority must implement a formal internal control policy to perform such inventory, at least once every two years. After this physical inventory is made and due to the stationary nature of certain assets (such as land, infrastructure, buildings, improvements other than buildings, and leasehold improvements), performing a physical inventory every two fiscal years is not required. However, consideration must be given to the requirements of adjusting the carrying value of assets that have been impaired. Second, perform the physical inventory and compare or reconcile items with information included in the Authority's capital assets subsidiaries. Any discrepancies detected must be documented and adjusted to the appropriate capital assets accounts.

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The instructions should describe:

- How and where to record each item,
- What information to record,
- What to do when they have a question,
- What procedures to follow when they finish their assignments,
- What procedures to follow when a capital assets item is located but not listed,
- The procedure by which the person counting the assets attests to the accuracy of the count, such as by signing his or her name at the bottom of each inventory page, or signing a cover page for a group of pages sorted by another method (batches, location, equipment type, etc.), and
- How to record assets not being used or in an obviously unserviceable condition. Such information is to be used to schedule repair or disposition of such assets.

After the physical inventory count is completed, the Authority's inventory officer is to conduct the reconciliation process. When all differences have been identified and explained, the physical inventory is considered reconciled.

The Authority should conduct the following steps during the reconciliation process:

- Search the inventory lists to determine whether inventory noted during the count as unrecorded is, in fact, listed on another portion of the inventory.

- Enter unrecorded assets into the inventory system as soon as possible after discovery.
- If a significant number of unrecorded assets are located, indicating a major problem with the asset recording procedures, the Authority's inventory officer is to determine why the problem is occurring and correct it.
- Conduct a search in an effort to locate missing assets.
- After the inventory is reconciled, the Authority's inventory officer is to certify the reconciliation with a statement and signature that it is correct and report this to the Finance Director.

3. LEASE CONTRACTS NOT RENEWED

CONDITION: Thirty-five (35) land lease contracts were selected for testing during our audit procedures, and for three (3) lease contracts, we observed that contracts were not renewed, and the lease continued, paying rent charges based on the expired contract.

RECOMMENDATION: Authority's management must maintain a schedule of outstanding land lease contracts, including expiration date, in order to assure that contracts are properly negotiated and renewed before expiration date. This must be done to obtain and maintain outstanding a valid contract, in case of future claims.

No findings were noted for federal awards.

Auditing standards generally accepted in the United States of America requires us to indicate that this letter is intended solely for the information and use of the Authority's management and its Board of Directors, and is not intended to be and should not be used by anyone other than the specified parties.

Very truly yours,

Torres, Hernandez & Punter, CPA, PSC

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Carolina, Puerto Rico