

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO



José B. Carrión III
Chair

Members

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

April 1, 2020

The Honorable Francisco Parés Alicea
Secretary
Department of Treasury
Government of Puerto Rico

Dear Secretary Parés Alicea:

The Oversight Board writes to discuss the issuance of the audited financial statements of the Commonwealth of Puerto Rico (“CW”) for the fiscal year ended June 30, 2017 (“FY17”) and other ancillary issues. As you are aware, earlier this month the Oversight Board engaged: (i) the Puerto Rico Department of Treasury; (ii) KPMG, auditors for the CW (“KPMG”); and (iii) management and the respective auditors of several additional agencies whose audits for FY17 have not been completed. The purpose of this initiative is to further the audit processes and accelerate the final issuance of the CW audited financial statements for FY17. The following two ancillary issues were also addressed and discussed during these meetings: (i) the financial examination on the audit work performed by the accounting firm of BDO for certain government agencies in FY17; and, (ii) the professional services contract for the audit of the CW financial statement for the fiscal year ended June 30, 2018 (“FY18”).

FY17 Financial Statements

Final issuance of the CW audited financial statements for FY17 is contingent upon completion of the individual audited financial statements for those agencies that are to be consolidated therein. As of today, to the Oversight Board’s knowledge, the audited financial statements for the following agencies have not been completed: (i) Puerto Rico Electric Power Authority (“PREPA”), (ii) Teachers Retirement System (“TRS”), (iii) Employee Retirement System (“ERS”), (iv) Judicial Retirement System (“JRS”), (v) Public Building Authority (“PBA”), (vi) Puerto Rico Infrastructure Financing Authority (“PRIFA”), (vii) Special Communities Perpetual Trust (“SCPT”), (viii) Government Development Bank (“GDB”), (ix) Agricultural Enterprise Development Administration (“AEDA”), (x) Ponce Authority, and (xi) the Superintendence of the Capitol Building.

In particular, BDO Puerto Rico (“BDO”) is still conducting an evaluation to PREPA’s FY17 audit report on the implications of a Puerto Rico Energy Board (“PREB”) resolution issued on June 27, 2019, that included a “true-up” on permanent vs. provisional rates. In light of the transaction, on November 2019, management issued a letter that the audited financial statements issued on June 28, 2019 should not be relied upon. BDO has then been re-engaged to complete procedures, however, there is still uncertainty as to the timing for completion. Similarly, TRS’s FY17 audit report is still in draft form, and BDO has been re-engaged to complete outstanding subsequent event procedures, actuarial evaluations, and other relevant procedures. The aforementioned FY17 audits, still under BDO’s evaluation, were estimated to be completed by March 31, 2020.

It is clear that the previously self-imposed deadline of March 31, 2020 for the issuance of FY17 audited financial statements is impossible to be met. To help the Oversight Board’s understanding and analysis of this delayed work, particularly concerning PREPA and TRS, please let us know the BDO U.S. contact with whom we may follow up. Moreover, the Oversight Board requests from the Department of Treasury a status report with explanations, an expected date of completion for the PREPA and TRS audits, and for all remaining audits necessary for the issuance of the FY17 CW audited financial statements. If there are other items or procedures necessary for the issuance of the FY17 CW audited financial statements that are incomplete, please provide their description, status report with explanations, and expected date of completion. In addition, the Oversight Board seeks an anticipated date of issuance for the final FY17 CW audited financial statements. As has been the process in the past, a fourteen-day period is required for the Oversight Board to evaluate and send comments, and for the CW to incorporate any feedback, to the final audit report. Please provide the requested information by April 10, 2020.

BDO Financial Examination

Based on the federal indictment filed against a partner of the professional services firm of BDO, members of the United States Congress asked the Oversight Board to examine the audit, accounting, and other services provided by BDO to the CW since FY16. The Oversight Board retained UHY Advisors, Inc. (“UHY”) as the independent firm tasked with performing this examination. An evaluation of BDO’s work is currently in-process and has been substantially completed with regards to the audited financial statements of HTA, AACA, and WIPR. BDO is still working on the FY17 audited financial statements for two agencies, PREPA and TRS, and therefore UHY’s report cannot be complete until those two audits for FY17 have been completed. Once the report on BDO’s work is finalized, it will be shared with KPMG for their evaluation and assessment of reliance on the work BDO performed.

FY18 Contract Review

Best practices provide that governmental units should finalize and issue audited financial statements no later than six months after the end of the relevant fiscal year. Issuance of audited financial statements by the CW for recent years has been far from this guideline. As a result, the Oversight Board understands it is necessary to review the contractual agreement for terms and conditions that may reduce the time needed for issuance of the audited financial statements for FY18.

The Honorable Francisco Parés Alicea

April 1, 2020

Page 3 of 3

Based on the foregoing, pursuant to section 204(b)(2) of PROMESA and the Oversight Board's Contract Review Policy, please submit the proposed professional services contract for the FY18 audit of the CW financial statements for the Oversight Board to review and approve.

We appreciate your cooperation with these requests and look forward to working with you to accomplish the requirements and goals of PROMESA for the benefit of the people of Puerto Rico.

Sincerely,



Natalie A. Jaresko

CC: Mr. Omar Marrero Díaz