

**COMMONWEALTH OF PUERTO RICO**  
**PUERTO RICO ENERGY AFFAIRS ADMINISTRATION**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**AND SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**(WITH INDEPENDENT AUDITOR'S REPORTS THEREON)**

COMMONWEALTH OF PUERTO RICO  
PUERTO RICO ENERGY AFFAIRS ADMINISTRATION  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
AND SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2011  
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TORRES, HERNANDEZ & PUNTER, CPA, PSC  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

Luis M. Bernal Jimenez, Esq.  
Executive Director  
Puerto Rico Energy Affairs Administration  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying Statement of Cash Receipts and Disbursements (the Statement) of Energy Affairs Administration of the Commonwealth of Puerto Rico (from now on PREAA) for the year ended June 30, 2011. This Statement is the responsibility of the PREAA's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

As describe in Note 1, PREAA prepares its Statement of Cash Receipts and Disbursements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the Cash Receipts and Disbursements of PREAA of the Commonwealth of Puerto Rico for the year ended June 30, 2011, in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards we have also issued our report dated April 19, 2012, on our consideration of PREAA's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with the Government Auditing Standards and important for assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements that collectively comprise PREAA's the Statement as a whole. The accompanying schedule of expenditures of federal awards and related notes on pages 10 and 11 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the Statement. The information has been subjected to the auditing procedures applied in the audit of the Statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the Statement of Cash Receipts and Disbursements taken as a whole.

*Torres, Hernández & Punter, CPA, PSC*

**Torres, Hernández & Punter, CPA, PSC**  
**Certified Public Accountants**

April 19, 2012

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College of CPA's of  
Puerto Rico is affixed  
to the original.

COMMONWEALTH OF PUERTO RICO

PUERTO RICO ENERGY AFFAIRS ADMINISTRATION

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

Programs	State Funds		Federal Funds		Fiduciary Funds		(Totals Memorandum Only)	
	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements	Receipts	Disbursements
Management and Administration 2011	\$ 728,000	\$ 817,459	\$ -	\$ -	\$ -	\$ -	\$ 728,000	\$ 817,459
Other State Funds	-	294,987	-	-	252,000	48,000	-	294,987
Corco	-	-	-	-	-	-	252,000	48,000
State Energy Program	-	-	262,525	165,222	-	-	262,525	165,222
State Energy Program	-	-	10,304,590	10,238,030	-	-	10,304,590	10,238,030
- American Recovery and Reinvestment Act (ARRA)	-	-	-	3,273	-	-	-	3,273
Electricity Delivery and Energy Reliability -	-	-	-	-	-	-	-	-
Energy Efficiency Action (ARRA)	-	-	-	-	-	-	-	-
Energy Efficiency and Conservation Block Grant Program	-	-	2,004,083	1,981,849	-	-	2,004,083	1,981,849
- American Recovery and Reinvestment Act (ARRA)	-	-	-	-	-	-	-	-
Energy Efficient Appliance Rebate Program	-	-	1,059,933	1,024,613	-	-	1,059,933	1,024,613
- American Recovery and Reinvestment Act (ARRA)	-	-	-	-	-	-	-	-
Enhancing State Government Energy Assurance	-	-	283,168	277,166	-	-	283,168	277,166
- American Recovery and Reinvestment Act (ARRA)	-	-	3,230	3,230	-	-	3,230	3,230
PR Industrial Energy Council	-	-	-	-	-	-	-	-
Weatherization Assistance for Low-Income Persons	-	-	13,498,102	13,653,596	-	-	13,498,102	13,653,596
- American Recovery and Reinvestment Act (ARRA)	-	-	12,946	16,555	-	-	12,946	16,555
Weatherization Assistance for Low-Income Person	-	-	-	-	-	-	-	-
<b>TOTALS</b>	<b>\$ 728,000</b>	<b>\$ 1,112,446</b>	<b>\$ 27,428,577</b>	<b>\$ 27,363,534</b>	<b>\$ 252,000</b>	<b>\$ 48,000</b>	<b>\$ 28,408,577</b>	<b>\$ 28,523,980</b>

See accompanying notes to Statement of Cash Receipts and Disbursements.

**COMMONWEALTH OF PUERTO RICO**

**PUERTO RICO ENERGY AFFAIRS ADMINISTRATION**

**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Energy Affairs Administration of the Commonwealth of Puerto Rico (From now on PREAA) is an administrative component of the Commonwealth of Puerto Rico under the Department of Economic Development and Commerce of Puerto Rico, created by Law No. 73 of May 28, 2008. The Puerto Rico Treasury Department (PRTD) acts as the fiscal agent of PREAA and its disbursement agent. PREAA's main purpose is implement public policy for the development of alternative and renewable sources of energy and programs related to the management, utilization, protection and conservation of energy resources of Puerto Rico, by encouraging the reduction of costs and maximizing energy efficiency.

PREAA follows accounting recordkeeping requirements imposed by the Puerto Rico Treasury Department system called "PRIFAS" (Puerto Rico Integrated Financial Accounting System) for Centralized Governmental Agencies and Departments and also following the requirements of Law #230 of July 23, 1974, as amended, know as "Accounting Law of the Government of Puerto Rico".

**BASIS OF FINANCIAL STATEMENT PRESENTATION**

**(A) BASIS OF PRESENTATION**

The accounts of PREAA are organized on the basis of two fund types: state funds and federal funds. PREAA maintains appropriations for several individual state and federal funds within each fund type. As more fully explained in the section "Basis of Accounting" below, each fund is accounted for with a set of accounts which include only cash receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are the funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by PREAA from programs funded by the Federal Government.

The individual funds are grouped by fund types as follows:

**State Fund** - This fund accounts for all the financial resources of PREAA except those required to be accounted for in another fund, and consists of legislative appropriations received from the Commonwealth of Puerto Rico.

**Federal Fund** - This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes for each federal grant program.

**Fiduciary Fund** - This fund account for assets held by PREAA in a trustee capacity or as agent for individuals, private organizations, other governmental units and other funds. The fiduciary fund is an Expendable Trust under which principal and income may be expended for their designated purposes. The proceeds from this funds are from sentences and consent orders issued in regard to violations from certain petroleum companies of federal rulings over prices and movement of petroleum, which were valid during the period from 1973 through 1981. These funds, actually known in the United States as "Energy Restitution Funds", are legally restricted to be used for energetic programs in Puerto Rico and for the collective benefit of the victims of such violations. PREAA maintain separate fiduciary funds for each settlement fund.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(A) BASIS OF PRESENTATION (CONTINUED)**

The individual funds included in these fund types are classified in the following programs:

Management and Administration Fund ("Asignación de Gastos de Funcionamiento") - Funds awarded to PREAA to cover operational expenditures of a fiscal year. Beginning on fiscal year 2003-04, the funds awarded to PREAA are determined following a formula with a fixed percentage applied to the monies collected in the General Fund of the Central Government of the Commonwealth of Puerto Rico, as required by Law #286 of December 20, 2002, as amended.

State Energy Program (SEP) - The program provides financial and technical assistance to State governments to create and implement a variety of energy efficiency and conservation projects in order to provide leadership to maximize the benefits of energy efficiency and renewable energy through communications and outreach activities, technology deployment, and accessing new partnerships and resources across the geographic panorama of the United States and its territories.

Electricity Delivery and Energy Reliability, Research, Development and Analysis - Through research, development, demonstration, technology transfer, and education and outreach activities, lead national efforts to modernize the electric grid; enhance security and reliability of the energy infrastructure; and mitigate the impact of, and facilitate recovery from, disruptions to the energy supply. Develop cost-effective technology that enhances the reliability, efficiency, and resiliency of the electric grid, while enabling the effective utilization of emerging and renewable generation sources and promoting the rapid deployment and integration of advanced digital "Smart Grid" technology that is needed to modernize the nation's electric delivery network for enhanced operational intelligence and connectivity.

Puerto Rico Industrial Energy Council - The grant award will be used to engage policy-makers on energy and regulatory issues of interest to advocates and practitioners of industrial energy efficiency. Energy saving equipment and services will be promoted as a means of reducing production costs and energy expenses as well as improving reliability.

Energy Efficiency and Conservation Block Grant Program - The program provides financial and technical assistance to assist State and local governments create and implement a variety of energy efficiency and conservation projects. The program's objectives are:

- \* To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities,
- \* To reduce the total energy use of the eligible entities, and
- \* To improve energy efficiency in the transportation, building, and other sectors.

Energy Efficient Appliance Rebate Program (EEARP) - The program provides financial and technical assistance to States to establish residential energy star rated appliance rebate programs. The program's objectives are:

- \* To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities, and
- \* To improve energy efficiency in the residential sector.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(A) BASIS OF PRESENTATION (CONTINUED)**

Weatherization Assistance for Low-Income Persons - To improve home energy efficiency for low-income families through the most cost-effective measures possible. The program's objectives are:

- \* To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities; and
- \* To reduce the total energy use of the eligible units while ensuring their health and safety.

Corco - On January 8, 1981, the Special Counsel for Compliance (Special Counsel) of the DOE and Corco (Commonwealth Oil Refining Company ) executed a Consent Order that required Corco to pay \$10 million in settlement of all liability for any possible violations of federal price and allocation regulation during the period of January 1, 1974 through July 31, 1980. On the same date, the Special Counsel, on behalf of the DOE, PREAA, (within the Executive Office of the Governor of Puerto Rico) and Corco executed an Agreement for the Distribution of Refunds (Agreement) . The Consent Order required Corco to pay \$3 million to the Puerto Rico Electric Power Authority (PREPA) and \$7 million administered by the Governor of Puerto Rico or his delegate as Trustee, in this case PREAA. The Agreement states that funds could be used in the following activities;

- \* To compensate persons affected by Corco's pricing practices,
- \* To assist persons that have been affected most severely by the increase cost of energy,
- \* To reduce the dependence of Puerto Rico consumers on high cost imported crude oil and refined petroleum product, and
- \* To promote and encourage energy conservation that ultimately will reduce energy cost of those persons in Puerto Rico that have incurred significantly increased cost in their energy consumption.

### **(B) BASIS OF ACCOUNTING**

PREAA follows the cash basis method of accounting to account for all funds administered. Under this method, cash or funds transferred-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Cash Receipts and Disbursements is not intended to present PREAA results of operations in accordance with accounting principles generally accepted in the United States of America.

### **(C) BUDGETARY ACCOUNTING**

Formal budgetary accounting is employed as a management control tool for all funds of PREAA. Annual operating budgets are adopted each fiscal year through passage of an annual budget which is approved by the Legislature of the Commonwealth of Puerto Rico and amended as required throughout the year. Effective June 30, 2001, all unencumbered budget appropriations of state funds lapse after the end of each fiscal year.

The Statement of Cash Receipts and Disbursements is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level to provide management with detailed control over expenditures at the appropriate budget level.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(C) BUDGETARY ACCOUNTING (CONTINUED)**

The procedures followed in approving and operating the budget are defined in various laws, regulations and the Constitution of the Commonwealth of Puerto Rico, and consist mainly of the following:

- \* Normally, during August or September of each fiscal year, PREAA submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following first day of July,
- \* At the beginning of the ordinary session of the legislative body of the Commonwealth of Puerto Rico, the Governor submits the budget for the Central Government of Puerto Rico and its agencies, including PREAA,
- \* The budget is legally adopted through the passage of an act to those effects by the Legislative Body and when the approval of the Governor is obtained, and
- \* Formal budgetary integration is employed as a management control device during the year for the state funds.

### **(D) TOTALS MEMORANDUM ONLY**

The total memorandum only columns are presented only to facilitate additional analysis. These columns represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these columns are not compatible to a consolidation and do not represent the total receipts and disbursements of PREAA.

## **NOTE 2 - PENSION COSTS**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of PREAA under age 55 at the date of employment become members of the System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951 as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and non occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case will the annuity be less than \$200 per month.

## **NOTE 2 - PENSION COSTS (CONTINUED)**

Participants who have completed at least thirty years of creditable service are entitled to receive the merit annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability requirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. No benefits is payable if the participant receives a refund of his accumulated contributions.

Law No. 1 of February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the merit system and a reduction of the percentage for disability and death benefits.

Commonwealth legislation requires employees to contribute 5.775% for the first \$6,600 of their annual gross salary (\$550 monthly) and 8.275% for the annual salary in excess of \$6,600 for the employees hired on or before March 31, 1990. For employees hired on or after April 1, 1990 the required contribution is 8.275% of gross salary. PREAA's contributions are 9.275% of gross salary.

On August 12, 2000, the Legislature of Puerto Rico approved Law No. 174. The Act provides to certain employees of the Government of Puerto Rico the option for early retirement. To qualify, the employee should make an election between July 1, 2000 and September 30, 2000, and among other requirements, must have twenty five (25) years of creditable service.

Total payroll covered for fiscal year 2011 was approximately \$1,762,553. Total approximate employee and employer contributions for the years ended June 30, 2011 are as follows:

<u>Description</u>	<u>Contribution</u>
Employer	\$ <u>113,999</u>
Employee	\$ <u>101,508</u>

Additional information on the Retirement System is provided in its stand-alone financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Employees Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, PO Box 42004, San Juan, PR 00940-2004.

## **NOTE 3 - CONTINGENCIES**

### **(A) FEDERAL AWARDS**

PREAA participates in a federal financial assistance programs funded by the federal government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantors. If expenditures are disallowed due to noncompliance with grant program regulations, PREAA may be required to reimburse the grantors.

During the year ended June 30, 2011, the Office of the Inspector General of the United States (OIG) performed a monitoring review of the Energy Efficiency Conservation Block Grant (EECBG). The monitoring review covered from September 2009, date of beginning of grant, to December 31, 2011. For the other grants, the program compliance audits for or including the fiscal year ended June 30, 2011 have not yet been conducted. Accordingly, PREAA's compliance with applicable grant requirements will

**NOTE 3 - CONTINGENCIES (CONTINUED)****(A) FEDERAL AWARDS (CONTINUED)**

be established at some future date. Nevertheless, PREAA's management expects the amount of expenditures, which may be disallowed by the granting agencies from such audits, if any, to be immaterial.

**(B) COMPTROLLER'S OFFICE OF PUERTO RICO REPORTS**

PREAA is also subject to audits by the Comptroller's Office of Puerto Rico (COPR). As per the Statement of Cash Receipts and Disbursements date, PREAA has no outstanding findings from COPR reports.

**NOTE 4 - LITIGATION AND CLAIMS**

As of Statement of Cash Receipts and Disbursements date, PREAA is not a defendant or co-defendant in lawsuits. The Legal Advisory of PREAA reports that, in any lawsuits filed against the PREAA, according to the laws of the Commonwealth of Puerto Rico, the PREAA is fully represented by the Department of Justice, and any successful claim against the PREAA shall be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the functioning budget of the PREAA, except cases related to claims involving restitution for salaries not received by an employee or an official. In that case, the claim is paid with funds of the PREAA.

Law No. 9 dated November 26, 1975, as amended, states that the Commonwealth of Puerto Rico may provide its officers and employees of the Puerto Rico agencies and instrumentalities with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments, if the claim is in the Federal Court. If the claim is in the State Court, the maximum amount permitted by law is \$75,000 per individual or \$150,000 per event. This is following the requirements of Law #104 of June 29, 1955, as amended, 32 LPRA Section 3077.

COMMONWEALTH OF PUERTO RICOPUERTO RICO ENERGY AFFAIRS ADMINISTRATIONSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFOR THE YEAR ENDED JUNE 30, 2011

<u>FEDERAL GRANTOR / PASS-THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
--	----------------------------	-----------------------------

**CASH ASSISTANCE:**U.S. DEPARTMENT OF ENERGY

State Energy Program (SEP-REG)	81.041	\$ 165,222
"ARRA" - State Energy Program (SEP-ARRA)	81.041	10,238,030
"ARRA" - Electricity Delivery and Energy Reliability, Energy Efficiency Action(EDEREEA-ARRA)	81.041	3,273
"ARRA" - Energy Efficiency and Conservation Block Grant Program (EECBG-ARRA)	81.128	1,981,849
"ARRA" - Energy Efficient Appliance Rebate Program (SEEARP-ARRA)	81.127	1,024,613
"ARRA" - Enhancing State Government Energy Assurance (ESGEA-ARRA)	N/A	277,166
PR Industrial Energy Council	81.119	3,230
"ARRA" - Weatherization Assistance for Low-Income Persons (WAP-ARRA)	81.042	13,653,596
Weatherization Assistance for Low-Income Persons	81.042	<u>16,555</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b><u>\$ 27,363,534</u></b>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO**  
**PUERTO RICO ENERGY AFFAIRS ADMINISTRATION**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**NOTE 1 - GENERAL**

The supplementary Schedule of Expenditures of Federal Awards (Schedule) has been prepared using the cash basis method of accounting. It is drawn primarily from PREAA's internal accounting records, which are the basis for PREAA's Statement of Cash Receipts and Disbursements (the Statement).

**NOTE 2 - CFDA NUMBER**

The CFDA number included in this Schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

**NOTE 3 - MAJOR PROGRAMS**

Major program is identified in the Summary of Auditor Results Section of the Schedule of Findings and Questioned Costs on pages 16 to 20.

**NOTE 4 - RELATIONSHIP TO THE STATEMENT**

Expenditures included in the Schedule of Expenditures of Federal Awards agree with the amounts included in the accompanying Statement.

**NOTE 5 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, PREAA provided federal awards to subrecipients as follows:

<b><u>CFDA Number</u></b>	<b><u>Program Name</u></b>	<b><u>Amount Provided to Subrecipients</u></b>
81.128	EECBG-ARRA	\$ 1,829,695
N/A	ESGEA-ARRA	196,760
81.127	SEEARP-ARRA	1,065,165
81.041	SEP-ARRA	9,874,110
81.041	SEP-REG	3,985
81.042	WAP-ARRA	<u>13,209,040</u>
		<b><u>\$ 26,178,755</u></b>



**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**

Luis M. Bernal-Jiménez, Esq.  
Executive Director  
Puerto Rico Energy Affairs Administration  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

We have audited the Statement of Cash Receipts and Disbursements (the Statement) of the Puerto Rico Energy Affairs Administration (from now on PREAA) for the fiscal year ended June 30, 2011, and have issued our report thereon dated April 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our report on the Statement discloses that, as described in Note 1, PREAA prepares its Statement on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the PREAA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the PREAA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PREAA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #11-01 and #11-02, to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #11-01 and #11-02, to be significant deficiencies.

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### **Compliance and Other Matters**

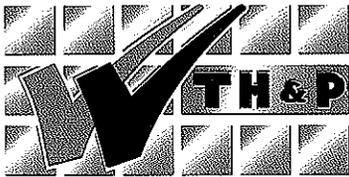
As part of obtaining reasonable assurance about whether PREAA's Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs, as items #11-01 and #11-02.

The PREAA's response to the findings identified in our audit are described in the corrective action plan prepared by PREAA. We did not audit the PREAA's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Management, the United States Department of Energy and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Torres, Hernández & Punter, CPA, PSC*  
**Torres, Hernández & Punter, CPA, PSC**  
**Certified Public Accountants**

April 19, 2012  
Stamp #E23122 of the  
College of CPA's of  
Puerto Rico is affixed  
to the original.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

Luis M. Bernal-Jiménez, Esq.  
Executive Director  
Puerto Rico Energy Affairs Administration  
of the Commonwealth of Puerto Rico  
San Juan, Puerto Rico

**Compliance**

We have audited the Puerto Rico Energy Affairs Administration (from now on PREAA) compliance of the PREAA with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2011. PREAA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of PREAA's management. Our responsibility is to express an opinion on PREAA's compliance based on our audit.

We conducted our audit of compliance 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. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PREAA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of PREAA's compliance with those requirements.

As described in the accompanying schedule of findings and questioned costs as item #11-02, PREAA did not comply with requirements regarding period of reporting (submission of single audit report) that is applicable to the all major federal awards. Compliance with such requirement is necessary, in our opinion, for PREAA to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, PREAA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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## Internal Control Over Compliance

The management of PREAA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PREAA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PREAA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #11-02, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #11-02 to be a significant deficiency.

The PREAA's response to the findings in the corrective action plan. We did not audit the PREAA's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Management, the United States Department of Energy and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Torres, Hernández & Punter, CPA, PSC*

**Torres, Hernández & Punter, CPA, PSC**  
**Certified Public Accountants**

April 19, 2012

Stamp #E23123 of the  
College of CPA's of  
Puerto Rico is affixed  
to the original.

**COMMONWEALTH OF PUERTO RICO**  
**PUERTO RICO ENERGY AFFAIRS ADMINISTRATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Part I - Summary of Audit Results:**

**Statement of Cash Receipts and Disbursements**

The independent auditor's report on the Statement of Cash Receipts and Disbursements expressed that such statement was prepared using the cash basis method of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting:**

Material weaknesses identified?	<u> X </u> yes	_____ no
Significant deficiencies identified?	<u> X </u> yes	_____ none reported
Noncompliance material to the Statement noted?	<u> X </u> yes	_____ no

**Federal Awards**

**Internal control over major programs:**

Material weaknesses identified?	<u> X </u> yes	_____ no
Significant deficiencies identified?	<u> X </u> yes	_____ none reported

The independent auditor's report on compliance with requirements applicable to major federal awards program expressed a qualified opinion.

The audit disclosed findings to be reported in accordance with OMB Circular A-133, Section 510(a).  X  yes      \_\_\_\_\_ no

PREAA's major awards during this year were:

- CFDA # 81.041 "ARRA" - State Energy Program, State Energy Program and Electricity Delivery and Energy Reliability Program
- CFDA # 81.128 "ARRA" - Energy Efficiency and Conservation Block Grant Program
- CFDA # 81.127 "ARRA" - Energy Efficient Appliance Rebate Program
- CFDA # 81.042 "ARRA" - Weatherization Assistance for Low-Income Persons and Weatherization Assistance for Low-Income Persons

A threshold of \$820,905 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, Section 520 (a).

PREAA qualify as a low risk auditee? \_\_\_\_\_ yes       X  no

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Part II - Findings Related to the Statement of Cash Receipts and Disbursements:**

**FINDING NUMBER 11-01: INFORMATION NOT AVAILABLE ON EMPLOYEE FILES**

**CONDITION:** Ten (10) employee files examined did not include the following documents:

1. Certification that income tax returns have been filed for the last five years, two (2) instances,
2. Certification of no debt outstanding with Treasury Department, one (1) instance,
3. Forms I-9 and Treasury Department 499 Retention Form signed, five (5) instances,
4. Form ASM-5 New Hire Report of the Administration for Child Support, two (2) instances,
5. Negative certification of property tax debt (CRIM), three (3) instances,
6. Health certificate, two (2) instances, and
7. Evidence of providing the Office's policies and manuals for private services performed, six (6) instances.

**CRITERIA:** In order to comply with laws and regulations issued by the PREAA is Employee Manual, Article 13 and article 177. Also, sound government management requires PREAA to maintain complete employee files, with specific documents required, and it be updated periodically.

For Form I-9 employers must complete it for all newly hired employees to verify their identity and authorization to work in the United States, including a list of approved documents that employees can present to verify their identity and employment authorization.

For form 499 R-4.1 "Withholding Exemption Certificate" the employee must complete this form and submit it to the employer. Otherwise, the employer is required to withhold income taxes without taking into consideration the employees personal exemption, exemption for dependents and allowance based on deductions, pursuant to the Internal Revenue Code of Puerto Rico (Code).

**CAUSE:** PREAA do not have in operation an appropriate internal control procedure to assure that all these forms are properly completed and included in employee files, and updated periodically.

**EFFECT OF CONDITION:** There is no documentation of employee screening process, to assure new hires are in compliance with applicable laws and regulations.

For form 499 R-4.1 "Withholding Exemption Certificate TD could impose penalties for each employee for which withholdings are being made and for whom the form was not prepared and included in their file. For Form I-9 the U.S. Citizenship and Immigration Services could perform random inspections and fine from \$100 to \$1,100 per missing I-9 forms and, if the problem is persistent, the fine could increase up to \$11,000 per employee.

**RECOMMENDATION:** The implementation of a checklist to be reviewed each time an employee is hired, and when an employee file is updated, to assure all required documents are available. Also, to schedule reviews of employee files for updating purposes.

**Part III - Findings and Questioned Costs Related to Federal Awards:**

Presentation follows compliance requirements included in the Compliance Supplement of OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations".

**A - Activities Allowed or Unallowed**

None.

**B - Allowable Costs/Costs Principles**

None.

**C - Cash Management**

Not applicable

**D - Davis - Bacon Act**

Not applicable

**E - Eligibility**

Not applicable

**F - Equipment and Real Property Management**

None.

**G - Matching, Level of Effort and Earmarking**

None.

**H - Period of Availability of Federal Funds**

None.

**I - Procurement and Suspension and Debarment**

None.

**J - Program Income**

None.

**K - Real Property Acquisition and Relocation Assistance**

Not Applicable.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Part III - Findings and Questioned Costs Related to Federal Awards:**  
**(Continued)**

**L - Reporting**

**FINDING NUMBER 11-02: LATE SUBMISSION OF SINGLE AUDIT REPORT PACKAGE**

**FEDERAL PROGRAM:** CFDA # 81.041 "ARRA" - State Energy Program and State Energy Program, CFDA # 81.128 "ARRA" - Energy Efficiency and Conservation Block Grant Program, CFDA # 81.127 "ARRA" - Energy Efficient Appliance Rebate Program and CFDA # 81.042 "ARRA" Weatherization Assistance for Low-Income Persons and Weatherization Assistance for Low-Income Persons, and all other federal awards.

**CONDITION:** PREAA did not submitted the single audit reports and reporting package for the year ended June 30, 2011, to the Federal Clearinghouse during the required period. This condition has been noted and reported in audits of previous years.

**CRITERIA:** OMB Circular A-133, Subpart C "Auditees", Section 320 (a), (c) " Report Submission", states that the audit shall be completed and the Data Collection Form and reporting package shall be submitted to the Federal Clearinghouse designated by OMB within the earlier of 30 days after receipt of the auditor's reports, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

**CONTEXT:** We verified the reporting date of last year financial statements and reporting package, and reporting date of current year financial statements to determine compliance with OMB Circular A-133 report submission requirements. Also, we verified last year reporting package date and was not in compliance with the requirement of submission within 30 days after receipt of the auditor's report or nine months after the end of the audit period.

**CAUSE:** PREAA contracted audit work for Single Audit 2011 on February 2012 and the report deadline was March 31, 2012.

**EFFECT:** PREAA may be subject to sanctions, as described in OMB Circular A-133. According to OMB Circular A-133, section 225 named "Sanctions", in cases of continued inability to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

1. Withholding a percentage of federal awards until the audit is completed satisfactorily;
2. Withholding or disallowing overhead costs;
3. Suspending federal awards until the audit is conducted; or
4. Terminating the federal award.

**RECOMMENDATION:** As recommended in prior years audits, we recommend management to formalize auditor contract before the fiscal year end, and to coordinate with auditors to commence audit procedures to allow the necessary time to complete the audit during the required period.

**QUESTIONED COSTS:** None.

**MANAGEMENT RESPONSE:** See corrective action plan.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Part III - Findings and Questioned Costs Related to Federal Awards:**  
**(Continued)**

**N - Subrecipient Monitoring**

None.

**O - Special Test and Provisions**

None.

**COMMONWEALTH OF PUERTO RICO**  
**PUERTO RICO ENERGY AFFAIRS ADMINISTRATION**  
**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

As presented in the 2010 audit:

**FINDING NUMBER 10-01: Required Clauses on Contracts**

**CONDITION:** Five (5) contracts of a sample of ten (10) examined did not include the following clause:

1. That the Contracted Party has not been Convicted of Crimes Against Public Integrity.

**Questioned Costs:** None.

**Status:** Corrected.

**FINDING NUMBER 10-02: Personnel Files**

**CONDITION:** Nine (9) of ten (10) employee files examined did not include the following documents:

1. Certification that income tax returns have been filed for the last five years, five (5) instances,
2. Certification of no debt outstanding with Treasury Department, four (4) instances,
3. Evidence of professional experience, or professional license (Resume), two (2) instances,
4. Forms I-9 and Treasury Department 499 Retention Form signed, seven (7) instances,
5. Form ASM-5 New Hire Report of the Administration for Child Support, seven (7) instances,
6. Negative certification of property tax debt (CRIM), six (6) instances,
7. Health certificate, four (4) instances,
8. Authorization for Payroll Deductions, one (1) instance,
9. Vacation and Absence Authorizations and Job Description, one (1) instance, and
10. Evidence of providing the Office's policies and manuals for private services performed, one (1) instance.

**Questioned Costs:** None.

**Status:** Not corrected.

**FINDING NUMBER 10-03: Disbursement made before funds were available**

**CONDITION:** For one (1) of thirty (30) disbursements selected for testing, the disbursement made was for services rendered before funds were available for disbursement. The underlying obligation occurred before the period of funds availability.

**Questioned Costs:** None.

**Status:** Corrected.

**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**FINDING NUMBER 10-04: Late submission of Single Audit Report Package**

**CONDITION:** PREAA did not submitted the single audit reports and reporting package for the year ended June 30, 2010, to the Federal Clearinghouse during the required period. This condition has been noted and reported in audits of previous years.

**Questioned Costs:** None.

**Status:** Not corrected.

**FINDING NUMBER 10-05: Monitoring Procedures**

**CONDITION:** PREAA's internal audit department does not comply with the monitoring procedures for the subrecipients. During the fiscal year ended June 30, 2010 no monitoring was made; also the internal audit department does not have a monitoring schedule for the subrecipients.

**Questioned Costs:** None.

**Status:** Corrected.

**FINDING NUMBER 08-01: Required Clauses on Contracts**

**CONDITION:** One (1) contract of a sample of five (5) examined did not include the following clauses:

1. The entity can cancel the contract through a written notification within 30 Days,
2. The entity can cancel the contract immediately in case of negligence,
3. The Contracted Party do not receive compensation for the services rendered from another Public Entity, and
4. The Contracted Party will not enter in Contractual Relationships or acts that Represents a Conflict of Interest.

**Questioned Costs:** None.

**Status:** Corrected.

**FINDING NUMBER 08-02: Information Not Available on Employee Files**

**CONDITION:** Nine (9) of ten (10) employee files examined did not include the following documents:

1. Certification that income tax returns have been filed for the last five years, five (5) instances,
2. Certification of no debt outstanding with Treasury Department , four (4) instances,
3. Evidence of professional experience, or professional license (Resume), two (2) instances,
4. Forms I-9 and Treasury Department 499 Retention Form signed, seven (7) instances,
5. Form ASM-5 New Hire Report of the Administration for Child Support, seven (7) instances,
6. Negative certification of property tax debt (CRIM), six (6) instances,
7. Health certificate, four (4) instances,
8. Authorization for Payroll Deductions, one (1) instance,
9. Vacation and Absence Authorizations and Job Description, one (1) instances, and
10. Evidence of providing the Office's policies and manuals for private services performed, one (1) instance.

**SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**FINDING NUMBER 08-02: Information Not Available on Employee Files (Continued)**  
**Questioned Costs:** None.

**Status:** Not corrected.

**FINDING NUMBER 08-03: Late Submission of Single Audit Report Package**

**CONDITION:** PREAA did not submitted the single audit reports and reporting package for the year ended June 30, 2008, to the Federal Clearinghouse during the required period. This condition has been noted and reported in audits of previous years.

**Questioned Costs:** None.

**Status:** Not corrected.

**FINDING NUMBER 08-04: Monitoring Procedures**

**CONDITION:** PREAA's internal audit department does not comply with the monitoring procedures for the subrecipients. During the fiscal year ended June 30, 2008 no monitoring was made; also the internal audit department does not have a monitoring schedule for the subrecipients.

**Questioned Costs:** None.

**Status:** Corrected.

As presented in the 2007 audit (for the complete text of the findings, refer to that audit report):

**Finding Number 07-04 - Financial Reporting**

**Condition:** As part of our audit procedures, we tested three (3) financial status report (form SF-269) issued during the year under audit. After performing such testing, we noted that the expenditures and obligations reported in the Financial Status Report did not agree with the accounting records.

**Questioned Costs:** None.

**Status:** No longer applicable because reports were prepared using different presentation basis, following the requirements of the federal agency requesting the reports.

**Finding Number 07-05 - Personnel Files**

**Condition:** The personnel files examined revealed that the documentation (as listed in the audit report) was missing from the employees's files.

**Questioned Costs:** None.

**Status:** Not corrected.