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# Financial Report

Prepared for AAFAF, P3A, and the Puerto Rico Department of the Treasury

## Assessment Report for “Development and Execution of an Accounting Remediation Plan for Puerto Rico Electric Power Authority (PREPA)”

## Disclaimers and Limitations

The information contained herein has been prepared by FTI Consulting, Inc. (“FTI”) based upon financial, technical, and other data provided by Puerto Rico Electric Power Authority (“PREPA HoldCo”), PREPA HoldCo’s subsidiaries (GridCo (managed by LUMA), GenCo (managed by Genera), HydroCo and PropertyCo), PREPA’s contractors, and from other public sources FTI deemed to be reliable. Certain assumptions were required to be made to provide the observations contained in this report (the “Report”) due to the manner in which the data was provided. Accordingly, FTI cannot express an opinion or any other form of assurance on and assumes no responsibility for the accuracy or completeness of the information and associated observations included in the Report.

FTI has not subjected the information contained herein to an examination in accordance with generally accepted auditing or attestation standards or the Statement on Standards for Prospective Financial Information issued by the American Institute of Public Accountants. Further, the work involved did not include a detailed review of any transactions, and cannot be expected to identify errors, irregularities or illegal acts, including fraud or defalcations that may exist.

This Report contains information on PREPA HoldCo and is being provided on a strictly confidential basis. This Report is provided to assess PREPA HoldCo’s current accounting procedures and practices, including the procedures and practices of PREPA HoldCo’s accounting service provider since 2021 (LUMA), and provide recommendations on opportunities for improvement. Each recipient of the Report agrees by its receipt, not to copy or disclose any of its contents to third parties without the express written consent of FTI.

The information and conclusions presented in this Report are subject to change as FTI receives or is made aware of new information or conducts additional analysis. Recommendations, activities, and timelines are estimated based on the information received as of this point of time and are subject to change as the work progresses and additional information is provided.

This report is intended for the following institutions and their affiliates:

- Puerto Rico Electric Power Authority (PREPA)
- Autoridad de Asesoría Financiera y Agencia Fiscal de Puerto Rico (Puerto Rico Fiscal Agency and Financial Advisory Authority) (“AAFAF”)
- Public-Private Partnerships Authority (“P3A”)
- Puerto Rico Department of the Treasury (“PRDT”)

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# Glossary

DEFINED TERM	DESCRIPTION	DEFINED TERM	DESCRIPTION
<b>AAAF</b>	Autoridad de Asesoria Financiera y Agencia Fiscal de Puerto Rico (Puerto Rico Fiscal Agency and Financial Advisory Authority)	<b>EBS</b>	Oracle E-Business Suite
<b>ABB</b>	Asset Suite	<b>EPM</b>	Enterprise Performance Management
<b>AP</b>	Accounts Payables	<b>ERP</b>	Enterprise Resource Planning
<b>AR</b>	Accounts Receivables	<b>FEMA</b>	Federal Emergency Management Agency
<b>ARCS</b>	Oracle Account Reconciliation Cloud	<b>FERC</b>	Federal Energy Regulatory Commission
<b>BPO</b>	Business Process Outsourcing	<b>FOMB</b>	Financial Oversight and Management Board for Puerto Rico
<b>BS</b>	Balance Sheet	<b>FS</b>	Financial Statements
<b>CA</b>	Capital Assets	<b>FSLI</b>	Financial Statement Line Item
<b>CC</b>	Company Code	<b>FTE</b>	Full Time Employee
<b>CC&amp;B</b>	Customer Care and Billing System	<b>FY</b>	Fiscal Year
<b>CEO</b>	Chief Executive Officer	<b>GAAP</b>	Generally Accepted Accounting Principles
<b>CF</b>	Cash Flow	<b>GASB</b>	Governmental Accounting Standard Boards
<b>CILT</b>	Contribution in Lieu of Taxes	<b>GASB 33</b>	Accounting and financial reporting for nonexchange transactions
<b>CoA</b>	Chart of Accounts	<b>GASB 42</b>	Accounting and financial reporting for Impairment of capital assets and for insurance recoveries
<b>COBIT</b>	Control Objectives for Information and Related Technology	<b>GASB 68</b>	Accounting and financial reporting for pensions
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission	<b>GASB 83</b>	Accounting and financial reporting for certain asset retirement obligations
<b>CPA</b>	Certified Public Accountant	<b>GenCo</b>	Comprises existing PREPA-owned generation resources; operated by Genera <sup>1</sup>
<b>CWIP</b>	Construction-Work-in-Progress	<b>Genera or Genera PR</b>	Genera PR LLC
<b>DRL</b>	Data Request List	<b>GL</b>	General Ledger
<b>DTP</b>	Desktop Procedure	<b>GridCo</b>	Comprises transmission and distribution, customer service, and administrative functions of PREPA; currently operated by LUMA (not registered entity) <sup>1</sup>

# Glossary

DEFINED TERM	DESCRIPTION	DEFINED TERM	DESCRIPTION
<b>HoldCo</b>	PREPA successor to be responsible for entity that will be responsible for certain non-operational functions <sup>1</sup>	<b>PREPA HoldCo</b>	All subsidiaries of PREPA, including: GenCo, HydroCo, HoldCo, PropertyCo and GridCo
<b>HR</b>	Human Resources	<b>PropertyCo</b>	Comprises existing PREPA-owned assets that are not directly related to generation, T&D, or irrigation operations
<b>HydroCo</b>	Hydropower Assets to be contributed by PREPA to HydroCo pursuant to a capital contribution agreement <sup>1</sup>	<b>RACI</b>	Responsible, Accountable, Consulted and Informed
<b>ICFR</b>	Internal Control Over Financial Reporting	<b>RAID</b>	Risk, Issue, Action and Decision
<b>IT</b>	Information Technology	<b>RFP</b>	Request for Proposal
<b>ITAC</b>	Information Technology Application Control	<b>RFR</b>	Request for Reimbursement
<b>ITGC</b>	Information Technology General Control	<b>S&amp;L</b>	Sargent & Lundy
<b>JE</b>	Journal Entries	<b>SEFA</b>	Schedule of Expenditures of Federal Awards
<b>KC</b>	Knowledge Capture	<b>SI</b>	System Implementation
<b>KT</b>	Knowledge Transfer	<b>SME</b>	Subject Matter Experts
<b>LUMA</b>	LUMA Energy, LLC & LUMA Energy ServCo, LLC	<b>SRT</b>	Significant Risk Transfer
<b>NIST</b>	National Institute of Standards and Technology	<b>SRT</b>	Service Rehearsal Testing
<b>P&amp;L</b>	Profit and Loss Statement	<b>SSA</b>	Shared Services Agreement
<b>P3A</b>	Public-Private Partnerships Authority	<b>SSO</b>	Shared Services Organization (a “captive” SSO is managed and operated internally vs outsourced to an external 3rd party)
<b>PBC</b>	Provided by Client	<b>Subsidiaries</b>	All PREPA HoldCo, including: GenCo, HydroCo, HoldCo, PropertyCo and GridCo
<b>PMO</b>	Project Management Office	<b>SUL</b>	Search for Unrecorded Liabilities
<b>PO</b>	Purchase Order	<b>T&amp;D</b>	Transmission and Distribution
<b>POA</b>	Plan of Adjustment	<b>T&amp;D OMA</b>	Puerto Rico Transmission and Distribution Operating and Maintenance Agreement, executed on June 22, 2020
<b>PRDT</b>	Puerto Rico Department of the Treasury	<b>TMO</b>	Transition Management Office
<b>PREB</b>	Puerto Rico Energy Bureau	<b>UAT</b>	User Acceptance Testing
<b>PREPA</b>	References all the subsidiaries under PREPA HoldCo excluding GenCo and GridCo	<b>YE</b>	Year End



## A. Executive Summary

## Introduction

The Puerto Rico Electric Power Authority (“PREPA”) is a public corporation of the Government of Puerto Rico (the Commonwealth) created on May 2, 1941. PREPA owns the electric generation, transmission and distribution facilities serving all of Puerto Rico. As the sole electric utility in Puerto Rico, PREPA provides electricity to approximately 1.5 million customers.

On July 2, 2017, PREPA filed for relief under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). In June of 2020, LUMA Energy LLC (“LUMA”) was engaged to operate the transmission and distribution (“T&D”) infrastructure in Puerto Rico. Subsequently, LUMA and PREPA entered into an agreement whereby LUMA provides shared services (including accounting support since 2021) for PREPA and its subsidiaries. Also, in 2023, Genera PR LLC (“Genera”) signed a 10-year contract with P3A to operate and maintain PREPA’s generation assets.

PREPA continues to be responsible for providing the Secretary of the Department of the Treasury and CFO of Puerto Rico all financial reporting and information to carry out its duties under Act 230 of July 23, 1974, as amended. Section 3.8 of the T&D OMA establishes LUMA’s reporting obligations to PREPA supporting PREPA’s ability to comply with its financial reporting mandates. In July and August 2021, the Department of the Treasury provided PREPA with Circular Letters (“Cartas Circular”) detailing rules and policies for PREPA to comply with, monthly financial reporting requirements to the Department of the Treasury, plan of corrective action to remediate findings and observations raised by the external auditors, an annual compliance certification from the director of finance ascertaining compliance with governmental account rules and regulations, and the deadlines for the issuance of June 30, 2023 and June 30, 2024 financial statements and other related requirements. Since filing bankruptcy under Title III in July of 2017, PREPA management was able to catch up on issuing audited financial statements from 2015, 2016, 2017, 2018, 2019, 2020, 2021 and 2022 – for PREPA and for the PREPA ERS.

During 2024, Secretary of the Department of the Treasury has identified the need to establish enduring, proper, effective and agile accounting processes aimed at achieving the timely issuance of PREPA’s audited financial statements to ensure the timely issuance of the Commonwealth’s audited financial statements, as stated in RFP 2024-3. In July 2024, FTI was engaged by AAFAF to provide advisory services in support of several key initiatives. These included assessing PREPA’s current accounting procedures and practices (most of which LUMA assumed on behalf of PREPA since June 2021 pursuant to the T&D OMA and SSA) through a review of documentation, systems, and stakeholder inquiries to identify root causes and recommend areas for improvement. Based on this assessment, FTI was responsible for developing a comprehensive written plan that outlines proposed solutions, required resources, key milestones, and timelines for critical financial functions, to be reviewed by Treasury and PREPA.

The following report details FTI’s current state findings and recommended initiatives for the remediation of PREPA’s accounting function based on the conversations and information FTI obtained.

### References:

1. Department of the Treasury - RFP 2024-3
2. Department of the Treasury Circular Letters: 1300-03-22, 1300-05-22, and 1300-23-24
3. Executive Order No. 2021-018: Designated the Secretary of the Treasury as the Chief Financial Officer (CFO) of the Government of Puerto Rico
4. <https://dm.epiq11.com/case/prepa/info>
5. <https://www.aafaf.pr.gov/puerto-rico-issuers/puerto-rico-electric-power-authority-prepa>

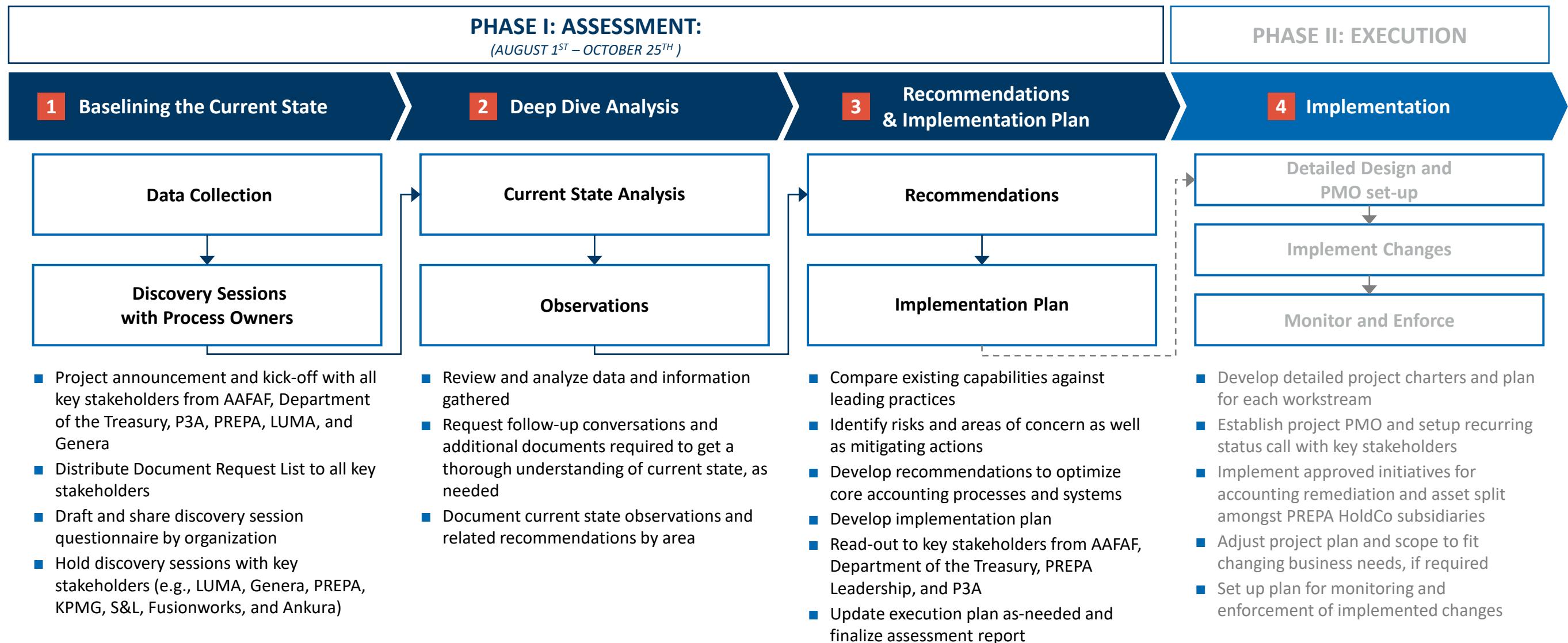
## EXECUTIVE SUMMARY

# Background, Objectives, and Deliverables

<h2>1 BACKGROUND</h2>	<ul style="list-style-type: none"> <li>PREPA's ability to issue its audited financial statements has become more challenging since the reorganization of PREPA and onboarding of LUMA as the financial shared services provider</li> <li>PREPA needs to establish enduring, effective, and agile accounting processes aimed at achieving the timely issuance of audited financial statements</li> </ul>	
<h2>2 OBJECTIVES<sup>1</sup></h2>	<ul style="list-style-type: none"> <li><b>Assess the current state</b> of PREPA's finance and accounting procedures (most of which have been in LUMA's scope of shared services since June 2021), including challenges faced between PREPA, LUMA, and Genera impacting PREPA's ability to achieve timely issuance of its audited financial statements</li> <li>Develop an <b>executable road map</b> for the provided recommendations</li> <li>Provide <b>PREPA, P3, and PRDT guidelines and assistance</b> in the execution of the accounting remediation assessment plan</li> </ul>	
<h2>3 DELIVERABLES</h2>	<ul style="list-style-type: none"> <li>A rapid assessment of current accounting procedures and practices: <ul style="list-style-type: none"> <li>Report of findings and recommendations</li> <li>Prioritized list of potential improvements</li> <li>Executable roadmap for optimal future state</li> </ul> </li> </ul>	
<p><b>Out of scope areas:</b> All areas not listed in the RFP 2024-3 are considered out of scope for this assessment</p>		
<p>Two or more discovery sessions conducted with stakeholder</p>	<p>One interview session conducted with stakeholder</p>	<p>No discovery session conducted with stakeholder</p>

1. Objectives are defined as per RFP #2024-3

# Approach



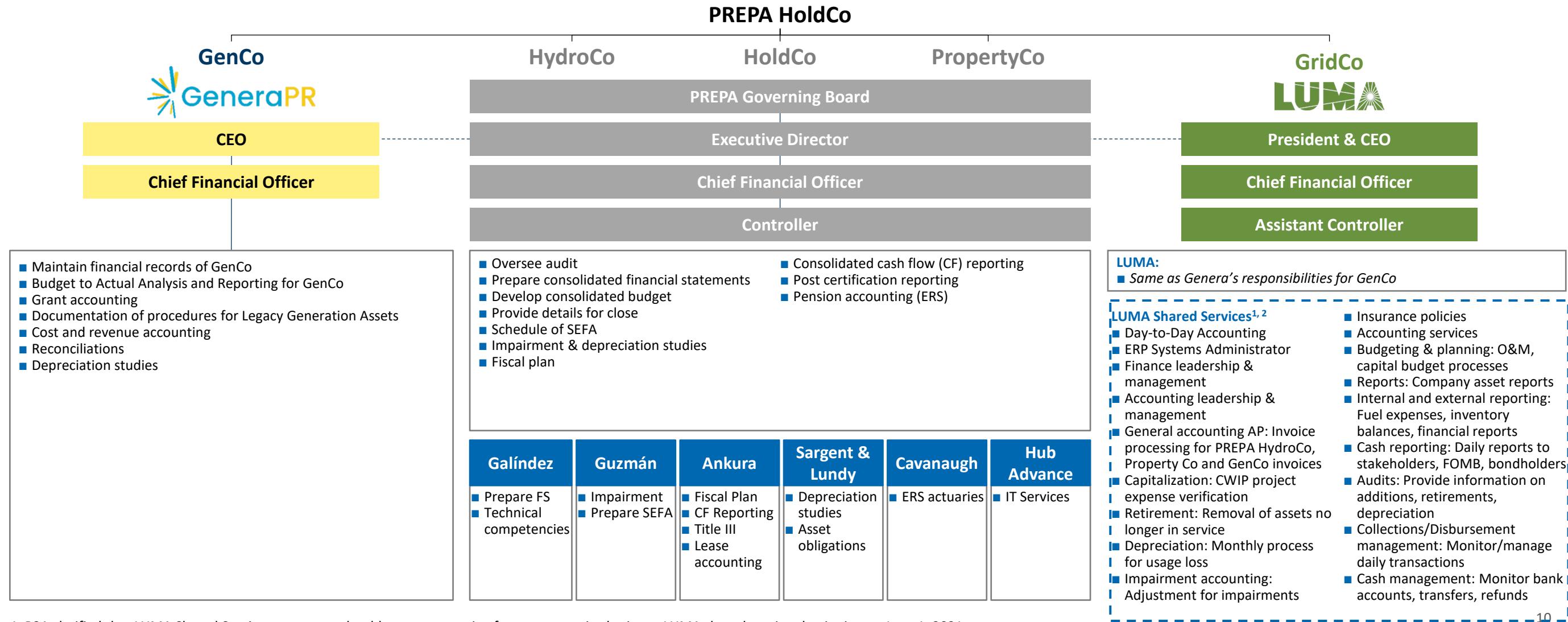
## EXECUTIVE SUMMARY

Key:

- Role not changing in Future State
- Role changing in Future State

# Accounting Organization Current State

The T&D OMA establishes that LUMA is responsible for all finance and accounting services related to the T&D System. Since June 2021, LUMA has also been contracted by PREPA and P3A to perform Finance and Accounting services for GenCo under an SSA. In January 2024, shortly after the formation of HydroCo and PropertyCo, LUMA was contracted by PREPA and P3A to perform Finance and Accounting services for HydroCo and PropertyCo under another SSA. FTI's understanding of the current responsibilities of each organization is shown below:



1. P3A clarified that LUMA Shared Service agreement should cover accounting for assets acquired prior to LUMA shared services beginning on June 1, 2021.

2. LUMA is responsible for the executive oversight and management of Finance and Accounting services and functions. This is reflected in the Finance section of Exhibit A of the '24.10.21\_Amendment Amended and Restated Shared Services Agreement – LUMA Energy' document. The Shared Services Agreements entered January 1, 2024 and amended and restated on September 30, 2024 relate to services provided to GenCo, HydroCo, and PropertyCo.

## EXECUTIVE SUMMARY

# Audit Delay | The 5 Whys

After the 2021 onboarding of LUMA as the Shared Services provider, audit delays have been caused or exacerbated in part by: (a) PREPA's budget reductions mandated by PREB and FOMB; (b) a lack of defined roles, responsibilities, and cooperation between the parties, and (c) lack of performance by LUMA of its accounting support under the shared services agreement. These deficiencies led to delays in financial statement audit issuance.

## WHY IS THE AUDIT DELAYED

**Accurate year-end balances are not available to be audited within six weeks of year-end because...**

**PREPA HoldCo does not have sufficient capacity or resources to perform critical accounting tasks until after year-end because...**

**LUMA is responsible to perform key accounting activities and contribute to the annual audit, but their work has proven to be ineffective and additional 3<sup>rd</sup> Party support is needed because...**

**Lack of governance over accounting policies, procedures, roles, responsibilities, and accountability combined with the absence of service management because...**

**Budgetary constraints limit the balance of day-to-day financial operations, annual compliance, and reporting activities...**

## KEY THEMES

Work not started on annual financial statements or audit until prior audit is completed, increasing the effect of delays. The FY 2023 audit remains outstanding and work on the FY 2024 audit has not started.

PREPA's 6-member<sup>1</sup> finance team, none of whom are CPAs, lacks sufficient personnel for management of the LUMA shared services or preparation of financial records and statements. Most of their time is spent on administrative tasks and Title III process, resulting in skill gaps that were exacerbated after many PREPA accounting personnel were transferred to LUMA during the transformation

The current arrangement with LUMA has resulted in (a) operational challenges due to unmet requirements of the SSA, (b) LUMA's restricting PREPA HoldCo's system access and visibility into financial and related processes, (c) complex coordination for PREPA's SMEs to receive documents and information from LUMA, and (d) LUMA violating its obligation with PREPA (and P3A) since June 2021 under Section 3.8 of the T&D OMA (Reporting Obligations), which obligates LUMA to provide PREPA with financial and operational information necessary for PREPA to comply with its various reporting and financial obligations.

Absence of a defined and documented service management framework, coupled with insufficient governance, undocumented processes, and unclear roles and responsibilities. Limited authority from PREPA HoldCo and minimal LUMA participation in governance meetings, has led to inadequate accountability and weak process controls

The budget for PREPA is insufficient to adequately support accounting and system requirements, staffing needs, and implementation of effective controls. Currently PREPA's limited budget hinders its ability to engage the skilled contractors needed to assist PREPA with the required process improvements. PREPA will need more resources to catch up on its delayed audits and then maintain a timely audit schedule.

## HOW DO WE GET THERE



Parallel remediation workstreams along with FY24 and FY25 audits with centralized PMO



Add accounting talent to PREPA and rebalance workloads to enable focus on core finance operations



Appropriately identify individual responsibilities, scope and document the processes within the SSA, and subsequently optimize the processes with adequate system access once Oracle Cloud and the SSO are live (Note: To undergo this solution, there is a need for securing LUMA accountability, as a government contractor and agent to PREPA, under the T&D OMA and SSA.)



Ensure sufficient authority to manage/monitor/influence OMA providers, enabled by documentation of policies and procedures, as well as a defined accountability matrix and a service management framework



Define budget and funding necessary to optimize PREPA finance operations, reporting, and compliance

1. Information based on initial conversations with PREPA. Understaffing is due to PREB/FOMB not providing PREPA sufficient budget to hire necessary resources to adequately meet its financial reporting obligations.

2. Technical talent and resources needed will be dependent on PREPA's ability to receive funding needed to hire appropriate accounting talent or acquire needed accounting advisory services.

## Key Themes and Observations

The root causes of the audit delays for FY 2022 and 2023 include: (a) PREPA's budget reductions driven by PREB and FOMB; (b) lack of accurate and complete record-keeping by PREPA and LUMA, communication between all parties, and stakeholder alignment since 2021. This is compounded by the following key themes:

<b>Delayed Audit Cycle Impact</b>	<ul style="list-style-type: none"> <li>■ PREPA is in a perpetual audit cycle, currently still closing out the audit for FY23 (mainly due to bankruptcy and transformation processes)</li> <li>■ PREPA is currently looking at a 18+ month audit, where in an ideal state an audit timeline is 3 months (optimal) to 6 months (satisfactory) to ensure compliance</li> <li>■ Due to the perpetual nature, the finance and accounting teams are constantly working on the audit, which takes time away from other initiatives</li> <li>■ LUMA challenged the state's directive by halting the audit for 4 months, as it disagreed with opening the requested accounting periods</li> <li>■ LUMA is not meeting the established deadlines, causing delays to the entire process</li> </ul>
<b>Consultant-Dependent Accounting</b>	<ul style="list-style-type: none"> <li>■ PREPA HoldCo lacks budget to hire necessary accounting personnel and has been required to engage outside consultants to assist in the preparation of financial statements, management reports, and most finance and accounting activities</li> <li>■ Outside consultants are not engaged until after the audit is underway. Certain activities, such as valuations or impairment analysis, can be done before the audit is started and in most cases before year-end</li> <li>■ LUMA's reluctance to perform its accounting duties has been a major hurdle. This is evident through PREPA's need to bring in S&amp;L and Guzmán to handle the impairment analysis</li> </ul>
<b>Skills Gap and Capacity Constraints</b>	<ul style="list-style-type: none"> <li>■ There is a skills gap in the current accounting team that is not being addressed by the team in place or by the outside contractors</li> <li>■ Most of the finance team's time is spent on administrative tasks or the Title III process</li> <li>■ Resources are not separately allocated to manage the FY23 audit and address ongoing operational challenges, leading to competing priorities and reduced effectiveness</li> </ul>
<b>Unreliable Data from Top-Side Adjustments</b>	<ul style="list-style-type: none"> <li>■ Topside entries booked in the Oracle GL have not been pushed down into the system, resulting in variances and difficulty in tying out and auditing balances</li> <li>■ Visibility into the support of the top-side entries is limited, which inhibits the ability to determine which specific projects, capital assets, or customer accounts are affected</li> </ul>
<b>Limited Policies &amp; Procedures and Accountability</b>	<ul style="list-style-type: none"> <li>■ There is limited documentation and implementation of policies and procedures</li> <li>■ LUMA Shared Services has started an initiative to develop 113 policies, of which 20 have been finalized and approved, 37 are in-process, and 56 have not yet started.</li> <li>■ Weak governance and performance management around the relationship with and service delivery by LUMA</li> <li>■ No clear authority is active in resolving information sharing stalemates between the subsidiaries</li> <li>■ The absence of accountability has, at times, paralyzed progress on the Single Audit, Impairment analysis, Going Concern evaluation, and Intercompany accounts</li> <li>■ LUMA does not currently align with PREPA HoldCo's reporting requirements. LUMA is not fulfilling their contractual responsibilities as outlined in the T&amp;D OMA and SSAs which is essential for PREPA HoldCo to meet its reporting requirements</li> </ul>

## EXECUTIVE SUMMARY

# Audit Readiness Scorecard

Internal controls, supporting accounting and transactional documentation, and technical accounting support needed for the audited financial statements are not maintained in a timely manner by LUMA in support of PREPA. Audit support needed for KPMG's audit is prepared reactively by LUMA and PREPA, rather than as part of standard operations.



Criteria	Current State	Adequacy	Future State	Level of Effort
<b>Internal Controls Support Readiness</b>	<ul style="list-style-type: none"> <li>The FY 2022 ICFR identified a number of deficiencies in the auditors' testing of internal control and compliance, which have been relatively consistent year over year</li> <li>No formalized risk assessment or internal controls program, including identification of key processes, risks and controls</li> <li>Lack of organizational governance and tone-at-the-top supporting adequate internal control environment</li> </ul>		<ul style="list-style-type: none"> <li>Adequately staffed finance organization within PREPA with clearly defined roles and responsibilities for PREPA, PREPA Holdco subsidiaries, and PREPA contractors</li> <li>PREPA to engage a third party with specialized expertise in internal controls over finance reporting to conduct a comprehensive assessment of the key risks to understand where controls are required and existing controls gaps</li> <li>Hire into PREPA Holdco adequate internal audit resources or engaged a third party to define effective internal controls over financial reporting and process to enable the ability to assess effectiveness (performed at least annually)</li> </ul>	
<b>Documentation Readiness</b>	<ul style="list-style-type: none"> <li>LUMA does not consistently perform or document account reconciliations</li> <li>Documentation of top-side entries to the accounting records not stored in a central archive</li> <li>LUMA has not developed accounting policies and procedures for most transactional accounts and accounting estimates</li> <li>There is limited information and documentation sharing between PREPA Holdco subsidiaries</li> </ul>		<ul style="list-style-type: none"> <li>Develop accounting policies and end-to-end process documentation for key accounts</li> <li>Archive top-side entry support with access provided to appropriate personnel</li> <li>Consistent reconciliation cadence and work papers adequate to support account balances prior to audit</li> </ul>	
<b>Technical Accounting Readiness</b>	<ul style="list-style-type: none"> <li>There is no technical accounting skill set within PREPA to manage and review the technical accounting work performed by consultants given the budget cuts imposed on PREPA HoldCo by the PREB and FOMB</li> <li>Technical accounting analysis and memos are usually provided by various consultants who may be engaged by PREPA long after the accounting period</li> </ul>		<ul style="list-style-type: none"> <li>Technical accounting skill set within PREPA HoldCo or from consistently engaged consultants</li> <li>Continued communication and cooperation from LUMA, PREPA, and Genera with external auditors to ensure alignment on approach</li> <li>Assessment of technical areas for changes in operations or regulatory requirements prior to year-end</li> </ul>	
<b>Financial Statement &amp; Disclosure Readiness</b>	<ul style="list-style-type: none"> <li>Financial Statements &amp; Disclosures are not drafted by PREPA until late in the audit</li> <li>Significant disclosures related to Title III and legal letters are needed to support valuation of liabilities. Obtaining the legal letters and clarity on Title III processes causes delays in PREPA's ability to draft financial disclosures</li> <li>Experts needed to support accounting positions are engaged by PREPA until late in the process, compounding delays</li> <li>LUMA's lack of participation throughout the audit limits PREPA's ability to proactively develop the footnote disclosures in a timely manner</li> </ul>		<ul style="list-style-type: none"> <li>Proactively update disclosures at year-end where work on the Financial Statements &amp; Disclosures document is started prior to year-end and updated through the audit process as accounts are finalized</li> <li>Disclosure of key facts, figures, and notes should be maintained with reconciliation and roll forward work papers</li> </ul>	

## EXECUTIVE SUMMARY

## Summary of Recommendations (1/2)



Critical

High

Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
Accounting Organization	1	Interim Resource	<ul style="list-style-type: none"> <li>PREPA has limited capacity due to immediate audit and financial reporting requirements</li> <li>Outside consultants assist PREPA with its year-end close process and coordination of the external audit process</li> </ul>	<ul style="list-style-type: none"> <li>Provide interim resource that can shadow contractors' work and general accounting to provide information and support other Accounting remediation initiatives</li> </ul>	12 – 13 months	Critical	Medium
	2	Establish Roles & Responsibilities	<ul style="list-style-type: none"> <li>Limited emphasis on responsibility of each party, with PREPA and P3A asserting LUMA is contractually obligated to manage all accounting for Holdco and LUMA asserting insufficient transition of information and participation by PREPA</li> <li>The LUMA OMA specifies P3A as the Administrator of the OMA and responsible for oversight in relation to LUMA's performance of its obligations stated in the OMA and the SSA<sup>1</sup></li> <li>PREPA expressed limited authority over LUMA to compel LUMA's performance of the accounting services and enforce performance standards</li> </ul>	<ul style="list-style-type: none"> <li>Create and execute plan to remediate current accounting deficiencies either through 1) re-transition to and training of LUMA team; 2) bringing accounting services back to PREPA with adequate budget, staffing and training; or 3) engaging a new shared service provider</li> <li>Clearly define finance roles, corresponding responsibilities, and reporting structures</li> <li>Implement performance indicators to ensure accountability measures are in place for key processes</li> <li>Identify clear pathway for escalation and remediation of poor performance</li> </ul>	2 – 4 months	Critical	Medium
	3	Develop Communication Plans & Staff with a PMO <sup>2</sup>	<ul style="list-style-type: none"> <li>While the LUMA OMA and the SSAs require cooperation across the Parties, as defined in the OMA and SSAs, PREPA and LUMA assert lack of cooperation from the other, resulting in generally limited information sharing</li> <li>PREPA does not have access to its financial reporting system and must request all financial information from LUMA through a portal that limits the clarity and timeliness of requests and responses</li> <li>No designated Communication Plan, RACI, or Project Manager exists to enable communication and cooperation across the Parties</li> </ul>	<ul style="list-style-type: none"> <li>Clearly define the role of a Project Manager for effective communications across the Parties, after which a designated individual should be onboarded<sup>3</sup></li> <li>Create an organization-wide communication plan that includes a RACI for the activities contractually required from P3A, PREPA, GridCo, LUMA, GenCo, Genera and information needed to flow between those parties as well as AAFAF, Hacienda, and the regulatory bodies over PREPA</li> <li>PMO to implement project tracking tools for progress visibility</li> </ul>	1 – 2 months	Critical	Medium

1. T&D OMA Article 6 (*Rights and Responsibilities of Owner and Administrator*), Section 6.2(a)(v) and Amended & Restated Shared Services Agreement dated January 1, 2024, Section 2.8 (*Role of Administrator*).

2. The designated PMO is a separate position from the current audit PMO role that is in place.

3. PREPA personnel turnover in-part due to transfer of employees to LUMA / Genera.

## EXECUTIVE SUMMARY

## Summary of Recommendations (2/2)



Critical

High

Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
Accounting Organization	4	Perform Skills Gap Assessment	<ul style="list-style-type: none"> <li>Skills gaps in the LUMA accounting resources providing shared services have gone unaddressed</li> <li>The PREPA skills gaps have been supplemented with contractors and consultants due to budget constraints restricting PREPA's ability to hire adequate resources</li> <li>PREPA's high turnover and reliance on external consultants has resulted in institutional knowledge gaps and insufficient internal personnel<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Conduct thorough review of current finance and accounting skillsets across LUMA and PREPA teams and compare current skillset against required skillset to meet accounting obligations of the OMA, SSAs, and PREPA's financial reporting requirements</li> <li>Initiate skillset roadmap implementation, either by adding support via contractors and/or training existing teams</li> </ul>	1 – 2 months	High	Medium
	5	Implement a Captive SSO: Design, Transition & Execution	<ul style="list-style-type: none"> <li>LUMA's SSA is extended to December 2025</li> <li>LUMA Shared Services for PREPA are transitioning to a captive SSO (i.e., shared service org managed by PREPA, not outsourced to an external 3<sup>rd</sup> party). The planning, design, and transition execution requirements will be significant</li> <li>The successful implementation of Oracle Fusion ERP is a pre-requisite to SSO transition. Funding was received by AFAFF to acquire necessary services and human capital for the implementation.</li> <li>Adequate planning and transition will be required for the on-boarding of a new accounting services provider. LUMA asserts the transition of accounting records and processes from PREPA to LUMA was insufficient for LUMA to meet its accounting services obligations.</li> </ul>	<ul style="list-style-type: none"> <li>Create or refine existing policy and procedure documentation to facilitate adequate transition of accounting services</li> <li>Develop detailed design and finance and accounting service delivery model</li> <li>Recruit and hire requisite skilled resources</li> <li>Conduct cross-wave transition design and onboarding infrastructure</li> <li>Develop service management framework and related KPIs, metrics, and interaction model</li> <li>Transition finance activities in waves, with each completing knowledge captures, knowledge transfers, service rehearsal testing, and stabilization to ensure successful transition before moving to the next wave</li> </ul>	14 – 18 months	High	High

1. PREPA personnel turnover in-part due to transfer of employees to LUMA / Genera.

## EXECUTIVE SUMMARY

## Summary of Recommendations



Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
Financial Close Optimization and Timeliness	6	Assess and Implement ICFR	<ul style="list-style-type: none"> <li>The T&amp;D OMA requires that LUMA perform annual risk assessment related to the T&amp;D system, including the financial internal controls<sup>1</sup>; however, no risk assessment, monitoring controls, or necessary personnel are in place in LUMA's Shared Services team to assure accurate financial reporting</li> <li>LUMA is not performing the year-end close on a timely basis or performing required accounting activities, e.g., depreciation studies and documentation of journal entry support. This results in the need for PREPA to engage consultants to help prepare the depreciation studies and correct the year-end financial statements, resulting in various post-closing adjustments</li> <li>During LUMA's monthly closing activities, not all significant accounts were reconciled timely in accordance with standard accounting practices and not all reports are properly reviewed; KPMG noted that accounting policies are not implemented, maintained, or updated, citing specifically the allowance for doubtful accounts policy<sup>2</sup></li> <li>KPMG noted bank records were not updated to remove former officials and include new officials</li> </ul>	<ul style="list-style-type: none"> <li>PREPA to engage a third party with specialized expertise in internal controls over finance reporting to conduct a comprehensive assessment of the key risks to understand where controls are required and existing controls gaps</li> <li>PREPA to hire adequate internal audit resources or engage a third party to define effective internal controls over financial reporting and process to enable the ability to assess effectiveness at least annually</li> <li>PREPA or its SSO to hire or engage internal audit resources to perform testing at least annually to ensure internal controls over financial reporting are sufficient</li> </ul>	15 – 18 months	Critical	High
	7	Optimize Financial Close Process	<ul style="list-style-type: none"> <li>LUMA does not perform formal close meetings to discuss status, delays, or open questions and the status of the close is not communicated consistently to PREPA or other stakeholders</li> <li>LUMA does not perform a hard close monthly, with only certain accounts being closed consistently in 3-4 weeks with a focus on the income statement while leaving balance sheet accounts unreconciled across multiple months.<sup>2</sup></li> <li>KPMG noted difficulty locating supporting documents and evidence for CWIP and labor claims. PREPA asserts LUMA has all of the documents PREPA had at the time of LUMA's onboarding and LUMA asserting it does not have the documents.</li> <li>KPMG also found that effective procedures to ascertain the proper accrual of invoices at the year end were not maintained, an AP aging report was not in place, and reconciliation of AP accounts was incomplete.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Complete LUMA's in-process initiative to produce accounting policies, with prioritization given to key accounting policies</li> <li>Establish and manage an efficient monthly close process, with a sequenced 10-day close, close meetings, and reporting requirements that is aligned between the PREPA Holdco entities and includes consolidation activities owned by PREPA</li> <li>Establish a centralized repository for month-end close work papers and journal entry support that is accessible to necessary accounting resources across PREPA, LUMA, GridCo, GenCo, and PREPA's accounting consultants.</li> <li>Optimize reconciliations and strengthen controls environment related to close</li> <li>Implement continuous improvement process to identify, design and implement improvements to accounting processes going forward</li> </ul>	5 – 7 months	Critical	Medium/High
Chart of Accounts	8	Optimize Chart of Accounts <sup>3</sup>	<ul style="list-style-type: none"> <li>CoA is oversaturated with 6,000+ accounts, of which there appear to be duplicative and one-time use accounts</li> <li>The CoA structure was built to support the FERC financial reporting requirements and was not built out with the capability to enable other reporting, such as financial reporting under GAAP or GASB</li> <li>Limited governance historically by PREPA and recently by LUMA around the creation and maintenance, with no efforts to clean up or rationalize the CoA</li> <li>LUMA has layered on additional accounts and comingled PREPA's legacy ledger with the T&amp;D ledger post LUMA's onboarding as the T&amp;D Operator.</li> <li>The planned Oracle Fusion ERP implementation includes work to optimize the chart of accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Review the CoA approved by the central government and assess current state CoA</li> <li>Conduct gap analysis against best practices and the centralized government CoA</li> <li>Develop a conceptual design or mapping with business requirements and a strategy for implementation</li> <li>Define governance, including global data taxonomy</li> <li>Conduct optimization of the CoA in PREPA's new Oracle Cloud environment</li> </ul>	6 – 7 months	High	Medium / High

1. T&amp;D OMA Annex I (Scope of Services), VI.D.2.

2. These activities are within the Scope of Services of the T&amp;D OMA and the SSAs dated January 1, 2024.

3. Initiative should be completed before implementation of ERP and restructuring of the shared services.

## EXECUTIVE SUMMARY

## Summary of Recommendations



Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
ERP <sup>1</sup>	9	Establish Systems Governance Program	<ul style="list-style-type: none"> <li>ERP system maintained unilaterally by LUMA IT team without necessary strategic alignment, resulting in: <ul style="list-style-type: none"> <li>Lack of adequate systems governance and change management controls</li> <li>Limited data strategy and coordination around master data management (e.g., chart of accounts, customers, vendors, items), data definitions or reporting requirements</li> </ul> </li> <li>LUMA co-mingled GridCo's ledger with PREPA's legacy ledger into a single entity in ERP</li> <li>LUMA has significant backlog in development of PREPA and Genera requested reports causing delays</li> <li>LUMA charges Genera for each report requested. The GenCo SSA dated Jan 1, 2024, does not provide for reimbursement on a per-instance basis for any financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Establish joint committee with clear roles for each member that includes representation from Hacienda, AAFAF, P3A, and PREPA to define and set ERP and overall finance systems and data strategy as well as oversee key decisions</li> <li>Identify key-decision maker, with ERP implementation experience, on joint committee who will be responsible for project decisions</li> <li>Develop controls to ensure compliance and prevent unauthorized system changes</li> <li>Establish policies, rules, guidelines and ensure alignment of global chart of accounts, and master data management (e.g., vendor data, customer data, item records, etc.) across all consolidating entities</li> <li>Set-up annual recurring review of data strategy and alignment as well as regular system maintenance schedules (quarterly or semi-annual is preferable)</li> <li>Establish clear channels of cross-functional communication across all stakeholders to provide regular updates on progress, risks, and overall status of active and proposed initiatives to encourage improved transparency</li> </ul>	2 – 3 months	 High	 Medium / High
	10	Align ERP Configurations	<ul style="list-style-type: none"> <li>PREPA is responsible for consolidated financials; however, LUMA controls all access to financial systems and reports</li> <li>PREPA manages the financial consolidation in Excel and accounting periods are often re-opened for LUMA to book accounting adjustments made as part of the consolidation and year-end audit processes; however, LUMA asserted that the GL does not tie to the audited financials</li> <li>Genera is unable to post journal entries due to system access controls implemented by LUMA requiring Genera to share journal entries with LUMA via Excel files introducing higher risks of human error</li> </ul>	<ul style="list-style-type: none"> <li>Set-up proper roles and access within the ERP: <ul style="list-style-type: none"> <li>Ensure appropriate segregation of duties and internal controls</li> <li>Optimize accounting and finance processes by enabling self-service reporting and allowing for subsidiary level posting, reviewing, and approving of journal entries</li> </ul> </li> <li>Evaluate accounting period configuration and enable adjustment period (e.g., "13 month"), if plausible</li> </ul>	1 – 2 months	 High	 Medium
	11	Prepare and Plan for ERP Implementation <sup>1</sup>	<ul style="list-style-type: none"> <li>On May 30, 2025, PREPA and AAFAF signed a MOU providing that PREPA will receive the funds budgeted for the shared services unbundling plan, which includes to engage the necessary services and human capital to implement Oracle Fusion Cloud.</li> <li>ERP Go-Live Phases: <ul style="list-style-type: none"> <li>July 1, 2025: Phase 1 (GL Core Configuration, AR, Revenue Recognition, ADP interface, Etc.)</li> <li>Aug 1: Roll Out of Financial Reporting (Consolidated)</li> <li>Oct 1 – Phase 2 (AP, Cash management, Etc.)</li> <li>Jan 1 – Phase 3 (AP, Procurement, Contracts, Inventory, Fixed Assets, Etc.)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Rationalization and standardize reports to minimize configuration in new ERP system: <ul style="list-style-type: none"> <li>Evaluate existing reports, usage of reports, and need to migrate</li> <li>Standardize reporting requirements and determine who should have access to reports</li> </ul> </li> <li>Set-up Project Management Office ("PMO"): <ul style="list-style-type: none"> <li>Conduct detailed evaluation of business requirements against system capabilities</li> <li>Develop detailed design document, data conversion plans, system integration testing, user acceptance testing, and end-user training plans with realistic timelines</li> <li>Identify key resources and establish clear accountability for key tasks and constraints</li> </ul> </li> </ul>	8 – 12 months	 Critical	 High

1. PREPA HoldCo is in the process of implanting Oracle Cloud. FTI's recommendations regarding the ERP should be considered in light of the current status of the ongoing Oracle Cloud implementation.

## EXECUTIVE SUMMARY

## Summary of Recommendations



Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
Capital Assets and CWIP	12	Establish a Consolidated Accounting Policy for Capital Assets and CWIP	<ul style="list-style-type: none"> <li>There is no formal policy or procedure in place for capitalization of assets or capitalized asset accounting</li> </ul>	<ul style="list-style-type: none"> <li>Each stakeholder will draft an accounting policy for the areas for which they are responsible - LUMA for transmission, GENERA for generation, PREPA for irrigation and telecommunication. PREPA, as the parent company, and responsible for the consolidated financial statements, will review and approve such policies. The primary purpose of accounting policies is to ensure PREPA uses the same principles and methods for similar transactions from one reporting period to the next and to demonstrate adherence to mandated accounting frameworks</li> </ul>	1 – 2 months	 High	 Low
	13	Execute System Clean-Up of Disposable Capital Assets and CWIP <sup>1</sup>	<ul style="list-style-type: none"> <li>PREPA stopped disposing of assets in Oracle EBS during 2017 due to Hurricane María and bankruptcy</li> <li>Projects that have finished may remain open in CWIP sub-ledger, and projects that are no longer feasible may continue to show as active</li> </ul>	<ul style="list-style-type: none"> <li>Obtain a detailed Capital Asset and CWIP listing as of a specific date from CC 01 (Legacy PREPA)</li> <li>Develop methodologies to identify obsolete Capital Assets and determine appropriate actions for CWIP (maintain, capitalize, or write off)</li> <li>Document reviews, create data backups, adjust Oracle EBS records, and enable asset disposals in Oracle EBS for CC 01</li> </ul>	2 – 3 months	 Critical	 Medium
	14	Perform Physical Inspection of Capital Assets and CWIP	<ul style="list-style-type: none"> <li>FTI could not determine or obtain evidence of the last physical inspection of fixed assets and construction in progress (CIP) for PREPA (before June 2021), LUMA (T&amp;D assets after June 2021), and Genera (Generation assets after May 2023)</li> <li>FTI could not determine or obtain evidence of a formal policy or procedure to perform physical inspection of fixed assets and construction in progress (CIP) for PREPA (before June 2021), LUMA (T&amp;D assets after June 2021), and GENERA (Generation assets after May 2023)</li> <li>New ERP already accounts for capital assets. Older assets / potentially CWIP need to be reviewed and closed out</li> <li>Sargent &amp; Lundy provides depreciation and impairment analysis, while the evaluation of CWIP is conducted internally</li> </ul>	<ul style="list-style-type: none"> <li>Draft accounting policies for physical inspections of Capital Assets: LUMA (T&amp;D), Genera (Generation), and PREPA (HoldCo, Irrigation and Telecommunication)</li> <li>PREPA's controllership to review and approve the Global Accounting Policy for physical inspections</li> <li>Establish a cut-off date, conduct physical inspections, and adjust Oracle records as needed<sup>2</sup></li> </ul>	6 – 7 months	 Critical	 High
	15	Separate Assets to GridCo and GenCo in Oracle	<ul style="list-style-type: none"> <li>Based on interviews with representatives from LUMA and GENERA, it was confirmed that the Opening Balance Sheet was not provided to either Operator upon their assumption of control of their respective operations. This poses a significant challenge for accurately establishing the initial book value of the assets transferred, including the Transmission and Distribution (T&amp;D) assets transferred to LUMA (June 2021) and the Generation assets transferred to GENERA (May 2023), and affects the subsequent financial reporting of fixed assets and construction in progress.</li> <li>The T&amp;D OMA states, "The Operator will collaborate with Owner to identify assets related to the facilities, furnishings, material, supplies, equipment and IT systems required for T&amp;D System operations" with "assistance and reliance on Owner for appropriate information"<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>Obtain a detailed Capital Asset and CWIP listing from CC 01, post-cleanup and inspections</li> <li>Segregate Capital Assets and CWIP by use (Generation, Transmission, Distribution) and allocate "General Plant" assets among GridCo and GenCo</li> <li>Document steps, create data backups, and adjust Oracle records to establish opening balances for GridCo and GenCo</li> </ul>	1 – 2 months	 Critical	 Medium

1. Once capital asset existence is confirmed, it will be reconciled against insurance to see if there is insurance on assets that do not exist.

2. Having the assets separated is part of the LUMA T&amp;D OMA.

3. T&amp;D OMA Section F.3.1.a

## EXECUTIVE SUMMARY

# Summary of Recommendations



Category	#	Recommended Initiatives	Key Findings	Recommended Approach	Duration	Impact	Effort
Revenue and AR	16	Determine Allowances for Doubtful Accounts	<ul style="list-style-type: none"> <li>Based on interviews with representatives from LUMA, the CC&amp;B system has a significant past due accounts, of which LUMA has recommended writing off \$366 million. PREPA stated its approval for the write-off requires LUMA to provide further analysis of the proposed write-off and policy as well as further efforts to collect outstanding debt from customers.</li> <li>PREPA determines adjustments to allowance after year-end, causing discrepancies between GL and financial statements</li> <li>Revenue-related recommendations are still pending and need to be aligned with LUMA</li> <li>Support is being provided to address write-offs in the CC&amp;B system</li> <li>Inquiries were made to LUMA regarding the approach to aged accounts receivable; LUMA responded with a brief summary stating they are in compliance and provided an estimated write-off amount</li> </ul>	<ul style="list-style-type: none"> <li>Draft accounting policy for distinct revenue recognition</li> <li>Approve PREPA HoldCo's Global Accounting Policy</li> <li>Write-off in CC&amp;B system the identified uncollectible amounts</li> <li>Uncollected amounts in Oracle EBS to be cleaned up with adjusting entries to remediate differences between subsidiary and GL AR</li> <li>Begin booking bad debt estimates monthly under a consistent methodology based on historical experience</li> </ul>	4 – 7 months	 High	 Medium
	17	Streamline FEMA Revenue Recognition	<ul style="list-style-type: none"> <li>Based on our interviews with representatives of LUMA, PREPA historically recognized revenue immediately when incurred, but is now aligned with GASB 33.</li> <li>LUMA and GENERA (As the Operators) can act as agents in the FEMA funding process. The process to recognize FEMA grant revenue is overly complex due to high-volume transactions, use of judgment, and the manual nature of analysis. Based on our interviews with LUMA, as it relates to the T&amp;D system, it was historically performed annually, creating delays in the financial reporting process as well as the independent audit of such</li> </ul>	<ul style="list-style-type: none"> <li>Create standardized quarterly or monthly process to determine appropriate FEMA revenue recognition on a timely manner</li> </ul>	2 – 3 months	 High	 Medium
	18	Establish Limits in CC&B System for CILT	<ul style="list-style-type: none"> <li>During 2018 PREPA implemented a statutorily mandated cap on municipal consumption that limited the amount of free electricity provided to municipalities for CILT. Any amounts above the cap were treated as excess consumption and are considered payable</li> <li>The CC&amp;B system, from which LUMA obtained control from PREPA as part of the OMA agreement, lacks established maximum consumption limits, leading to unbilled revenue on excess consumption</li> <li>On August 5, 2024, LUMA sent PREPA a CC&amp;B write off process initiative notification aimed at bringing account billing information up to date. It required a response from PREPA by August 9<sup>th</sup> or will otherwise proceed as planned.</li> </ul>	<ul style="list-style-type: none"> <li>Update CC&amp;B system to include maximum consumption limits</li> <li>Ensure municipalities receiving CILT are being invoiced and revenue is recognized for electric services in excess of CILT limits set for each municipality</li> <li>Confirm newly implemented CC&amp;B write off process (launched in January 2024) is within appropriate limits with full automation implementation expected by Q3FY2025</li> </ul>	1 – 2 months	 High	 Low

1. The amount of uncollectible accounts is as of financial information provided to FTI in September 2024.

## Next Steps

Alignment to proceed with the strategic initiatives identified by FTI. Below are the key actions and decisions to begin mobilization.

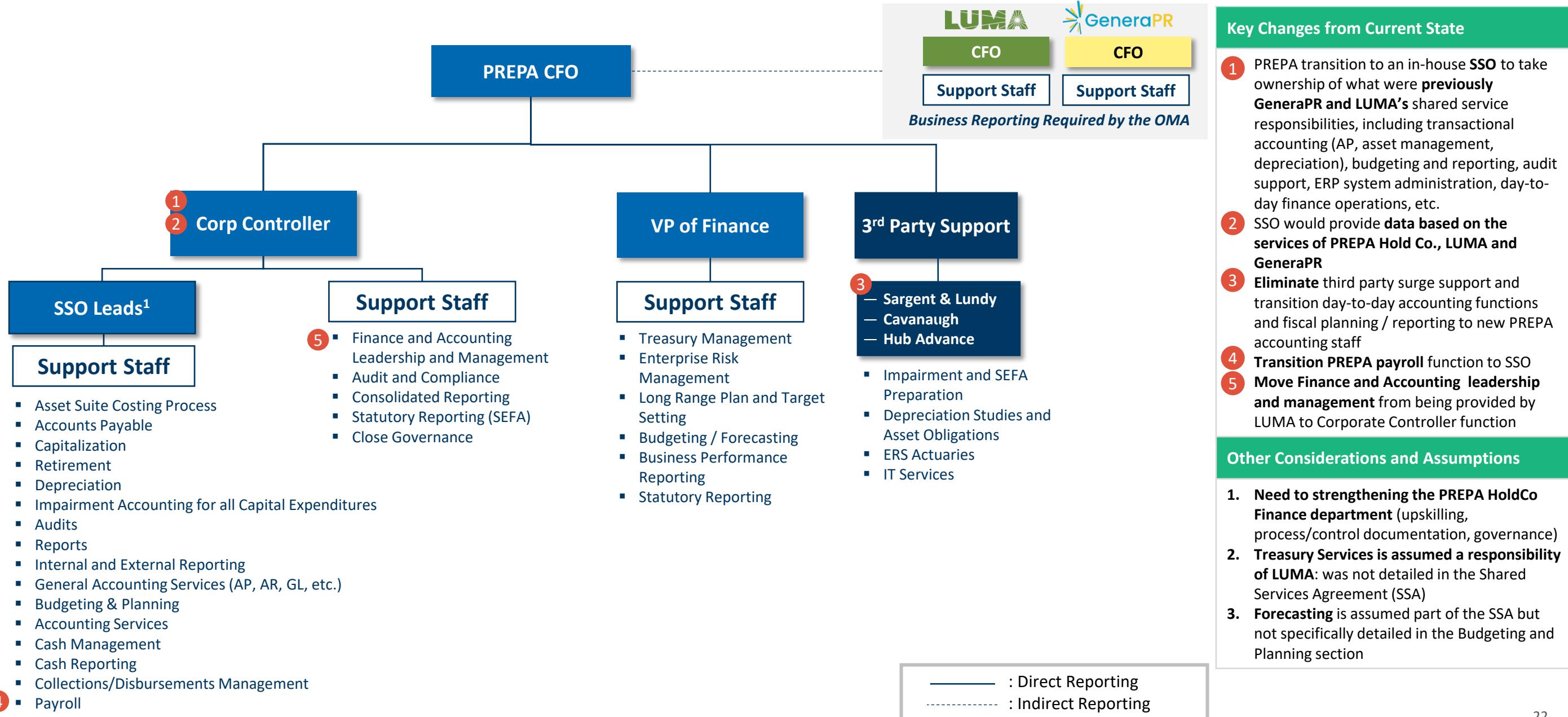
- 1 P3, AAFAF and PREPA leadership need to align, prioritize and finalize the diagnosis of root causes and listing of recommendations presented**
- 2 Stand up the PREPA led Finance Transformation Office to facilitate the development, execution and monitoring of key strategic initiatives**
- 3 Begin SSO scoping and related shared services assessments to mobilize transition activities to begin remediation**

The implementation of the strategic initiatives, including SSO transition, are intended to optimize the finance and accounting foundational processes to facilitate the timely issuance of PREPA's audited financial statements.

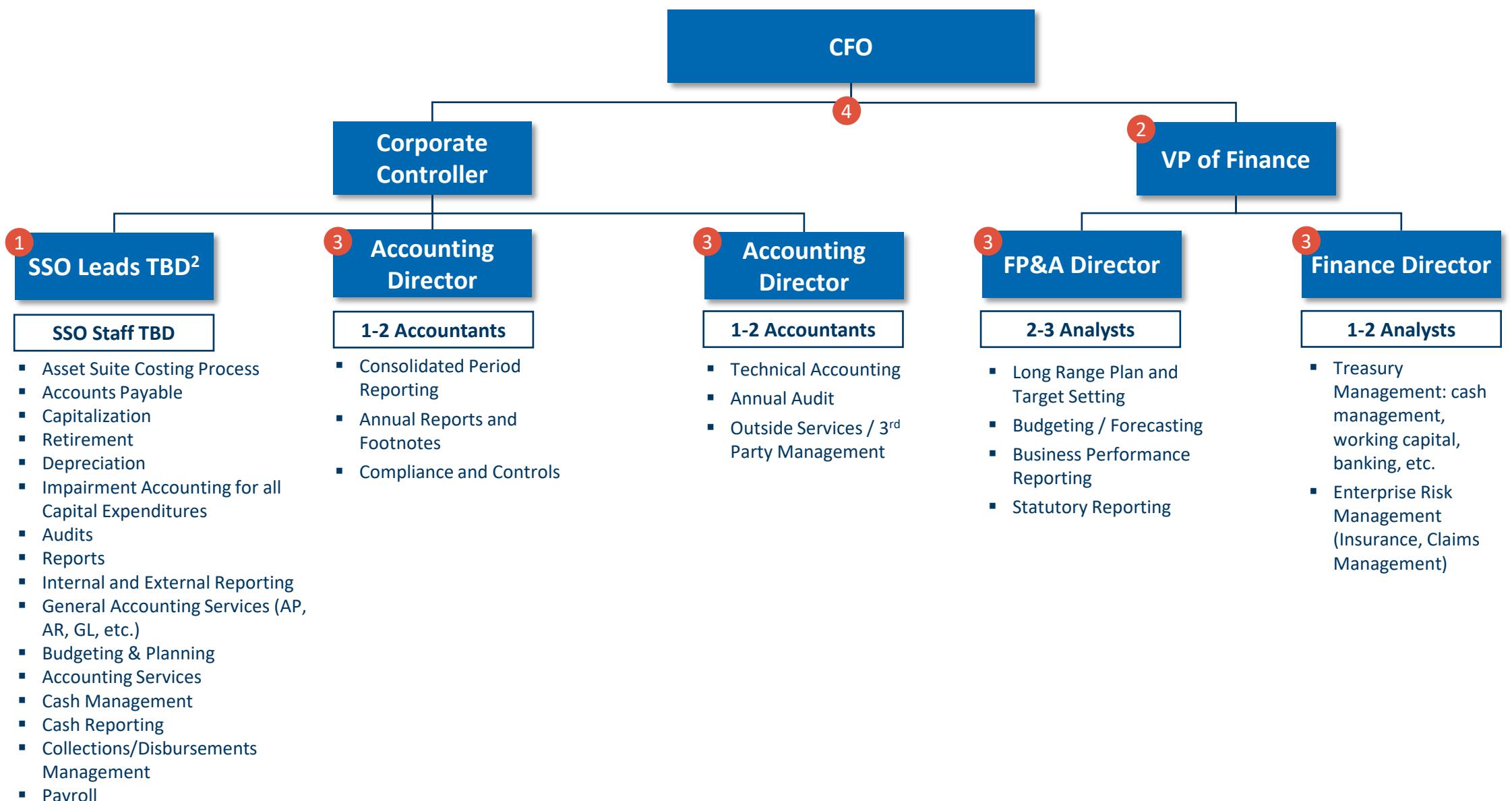


## B. Illustrative Shared Services Organization (SSO) Transition

# Future State PREPA Org | CFO Organization with SSO - Illustrative



# Future State PREPA Org | Detailed CFO Organization<sup>1</sup>



## What's New & Assumptions

- PREPA's SSO to take ownership of what were previously GeneraPR and LUMA's responsibilities, including transactional accounting functions
- Dedicated and professionalized Corporate FP&A function under the CFO responsible for driving the budgeting and forecasting process, and providing performance reporting
- Additional competencies of technical accounting and risk management.
- Staff and sizing assumes:
  - GeneraPR and LUMA are meeting obligations for reporting to PREPA under their respective OMAs
  - Upskilled staffing (e.g., CPA, CFA, or equivalent credentials)
  - ERP is stabilized

1. This represents a preliminary view of potential sizing and structure for the Finance organization, based on our current understanding and subject to change following completion of the assessment phase.

2. SSO sizing will be based on the Process Baseline and SSO Scope phase by identifying the % of time spent per activity



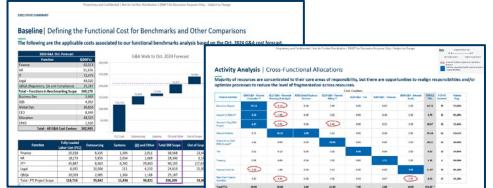
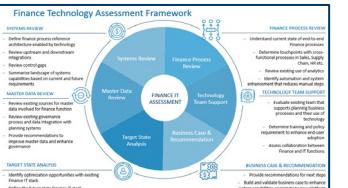
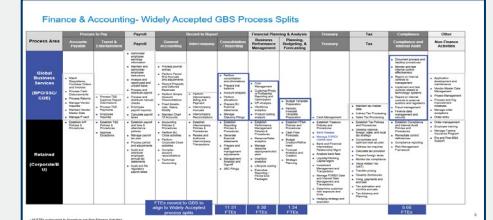
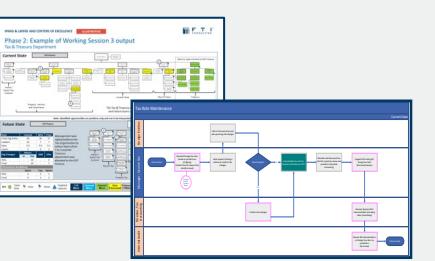
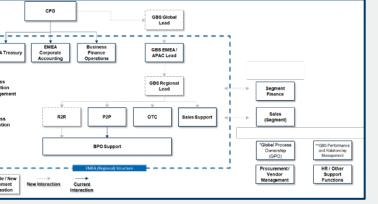
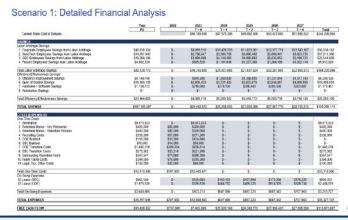
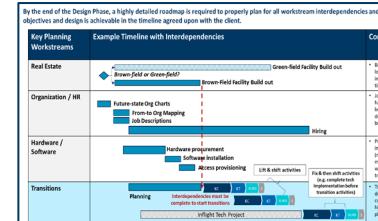
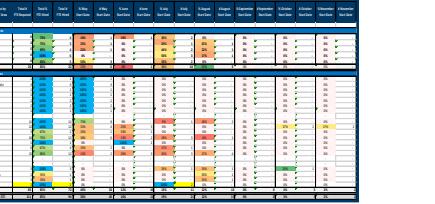
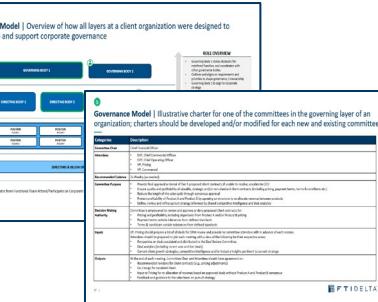
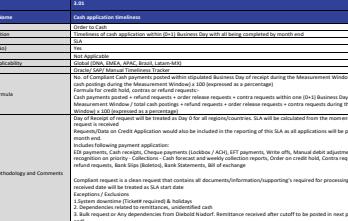
# SSO Transition Planning | Approach and Timing

Stage	Estimated Timing <sup>1</sup>	Key Activity Descriptions	Outcomes/Outputs	Time Commitment from Finance and Stakeholders <sup>2</sup>
1: Process Baseline and SSO Scope	5-6 Weeks	<ul style="list-style-type: none"> <li>■ Identify process scope and related cost baselines</li> <li>■ Identify level of process activities to scope into SSO</li> <li>■ Organizational Full Time Equivalent (FTE) assessment</li> <li>■ Define service delivery model and governance between PREPA/LUMA/GeneraPR and SSO</li> <li>■ Develop high level business case</li> <li>■ Define roadmap and transition strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Defined SSO process scope vs. retained process activities</li> <li>■ FTE / % of activities – value of magnitude (% of time and costs) baselines</li> <li>■ Service Management and SSO Governance model (roles, interaction model, SSO SLAs/KPIs of process measures)</li> <li>■ High level business case</li> <li>■ Roadmap and transition strategy</li> </ul>	
2: Detailed Design	3-4 Months	<ul style="list-style-type: none"> <li>■ Develop future-state Level 3 process designs (including RACI, systems, and exception handling)</li> <li>■ Design interaction model between SSO and businesses</li> <li>■ Develop future state organization charts</li> <li>■ Draft job descriptions for each role</li> <li>■ Develop real estate/space requirements</li> <li>■ Document technology and infrastructure requirements</li> <li>■ Design governance / develop service level agreement framework</li> <li>■ Develop change management and communications plan</li> <li>■ Develop detailed business case</li> <li>■ Develop detailed transition plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Future state process maps and narratives</li> <li>■ SSO interaction model</li> <li>■ Job descriptions</li> <li>■ Facility and IT requirements</li> <li>■ Performance management framework</li> <li>■ Change and communication strategy with related artifacts</li> <li>■ Detailed business case</li> <li>■ Detailed transition plan</li> </ul>	
3: Transition Processes to SSO	8-12 Months	<ul style="list-style-type: none"> <li>■ Finalize detailed transition plan</li> <li>■ Align Finance “transition” process owners</li> <li>■ Coordinate knowledge transfer approach and documentation training templates</li> <li>■ Coordinate service readiness (i.e., ready to execute) sign-off</li> <li>■ Coordinate final Service Level Agreements (SLAs) to measure process effectiveness</li> <li>■ Align on SSO continuous process improvement approach and milestones</li> </ul>	<ul style="list-style-type: none"> <li>■ Detailed SSO transition plan</li> <li>■ Change and communication artifacts</li> <li>■ Documented service readiness by process area</li> <li>■ Governance roles and responsibilities</li> <li>■ Finalized SLAs and alignment on timing and measurements</li> <li>■ Continuous improvement plan</li> </ul>	

1. Timing based on process scope and complexity, level of process standardization/documentation, availability of company's process owners, subject matter experts and key stakeholders.

2. Example of individuals involved: SMEs, process owner, leads, stakeholder/receiver of “outputs/services” from Finance, etc.

# SSO Transition Tools and Accelerators | FTI Illustrative Samples

Stage	Tools and Accelerators				
1: Process Baseline and SSO Scope	1.1 Visioning and SSO Guiding Principles Workshop(s)	1.2 Cost and FTE Time Allocation Baseline	1.3 Activity Analysis of SSO Scope	1.4 SSO Scope and Governance Strategy	1.5 System, Application and Technical Landscape Analysis
					
2: Detailed Design	2.1 Service Delivery Model (SDM) Alternatives	2.2 Process Splits / SSO Scope	2.3 Current to Future State Org Charts and Process Maps	2.4 Interaction Model	2.5 Business Case
					
3: Transition Processes to SSO	3.1 Transition Timeline, Interdependencies and Risk Planning	3.2 Change Management and Communication Plan	3.3 Hiring Tracker for Transition	3.4 Transition Governance Model for Performance and Operational Management	3.5 SLA / Performance Management Example
					

## Key Lessons Learned | Strategy through Detailed Design



- 1** We **transition processes, not existing roles or people**. It is essential to develop future state process splits and design the future state organization based on the processes being transitioned (and those being retained) rather than assuming a lift and shift of existing roles.
- 2** **Well documented processes are key to the success of the transition.** There may be areas of process improvement to which a decision will need to be made to improve the process prior to transition.
- 3** Client executives will obviously weigh in on the strategy; however, it is **important to include process SMEs during Design to create buy-in for the program and identify potential operational challenges** to which the executives may not have visibility.
- 4** There are many **significant interdependencies** (including non-trivial cost and timing impacts) in both the Design and Implementation phases which need to be considered during the Assessment phase. These include Recruiting, Real Estate, Technology, and Communications, in addition to the core workstreams around Process, Organization, and Transition Planning/Execution.



## C. Appendix

## Discovery Sessions

**FTI conducted 25 Discovery Sessions with LUMA, Genera and PREPA including contractors throughout the Accounting Remediation Plan for PREPA HoldCo Project since week 1.**

Topic	Organization	Date	Location	Status
<b>Week Aug 19</b>				
Capital Assets	Luma	20-Aug-24	In Person	Completed
Financial Statement and Consolidation	Luma	20-Aug-24	In Person	Completed
IT Systems Directly Affecting Financial Reporting	Luma	20-Aug-24	In Person	Completed
IT Systems - Future State	Genera	20-Aug-24	Teams	Completed
Accounts Payable	Luma	21-Aug-24	In Person	Completed
Internal Controls / Policy and Procedures	Luma	21-Aug-24	In Person	Completed
General Discussion	PREPA	22-Aug-24	In Person	Completed
Accounts Receivables & Revenue Cycle	Luma	23-Aug-24	Teams	Completed
<b>Week Aug 26</b>				
General Accounting Discussion	PREPA	26-Aug-24	Teams	Completed
General	Fusionworks	27-Aug-24	In Person	Completed
General	Sargent & Lundy	28-Aug-24	Teams	Completed
General Accounting Discussion	Luma	29-Aug-24		Completed
Follow up with PREPA Finance	PREPA	29-Aug-24	In Person	Completed
<b>Week Sep 2</b>				
General Discussion	PRDT	04-Sep-24	Teams	Completed
KPMG Document Portal	PRDT (Teresa Rosario)	04-Sep-24	Teams	Completed
Historical Accounting capital assets	Genera	05-Sep-24	Teams	Completed
FEMA Revenue	Luma	05-Sep-24	Teams	Completed
<b>Week Sep 9</b>				
Audit Internal Meetings	PREPA	10-Sep-24	Teams	Completed

\*FTI held additional ad-hoc conversations with LUMA and Genera not listed above.

\*\*For conversations with PREPA and their contractors, FTI has sent multiple requests directly and via PRDT as they may be critical for the Accounting Remediation Project (e.g., Galíndez, Guzmán and Hub Advance).

Topic	Organization	Date	Location	Status
<b>Week Sep 16</b>				
BPO Discussion	Hub Advance	17-Sep-24	Teams	No Show
General Discussion	Galíndez	17-Sep-24	Teams	Cancelled
Follow-up FEMA Revenue	Luma	18-Sep-24	Teams	Completed
General Discussion	Guzmán	19-Sep-24	Teams	Not Scheduled
General Discussion	KPMG	20-Sep-24	Teams	Completed
<b>Week Sep 23</b>				
Capital Assets	Luma	24-Sep-24	Teams	Completed
ERP	Genera	24-Sep-24	Teams	Completed
ERP	Luma	25-Sep-24	Teams	Completed
General Discussion	Ankura	26-Sep-24	Teams	Completed
<b>Week Sep 30</b>				
Bank Reconciliations	Luma	01-Oct-24	Teams	Completed
<b>Week Sep 30</b>				
Follow Up Meeting	Sargent & Lundy	11-Oct-24	Teams	Cancelled
<b>Week May 19</b>				
Meeting with FTI	AAFAF, Hacienda and P3	22-May-25	Teams	Completed
<b>Week Jun 9</b>				
Working Session with PREPA	PREPA	11-Jun-25	Teams	Completed
<b>Week Jun 30</b>				
Working Session with PREPA	PREPA	01-Jul-25	Teams	Completed

# Data Request List

Below is a summary of the documents received by FTI from LUMA, Genera and PREPA.

Ref	Request	Subsidiary		
		PREPA	LUMA	Genera
<b>A. Organization &amp; Background</b>				
1	Contact list	R	R	-
2	Full company census	R	R	R
3	Organization charts	R	R	-
4	Legal entity structure	R	-	-
5	GL data	R	R	-
6	Trial balances	R	-	-
7	Docket filings name(s)	R	-	-
<b>B. Policy &amp; Documentation</b>				
8	Policies, procedures, and guidelines	-	R	-
9	Process maps and narratives	NR	NR	-
10	Internal controls documentation	R	-	-
11	Training materials	NR	NR	-
<b>C. GL Close &amp; Consolidation Processes</b>				
12	Close checklist	-	R	-
13	Close and reporting calendar/timeline	R	R	-
14	Chart of accounts	R	R	-
15	Workpapers and reconciliation files	NR	-	-
16	List of accounts reconciled	NR	NR	-
17	List of types of manual journal entries and accruals	NR	-	-
18	Approval process for journal entries	NR	R	-
19	Consolidation calendar	NR	-	-
20	Detailed mapping of Financial Statements responsibilities	-	R	-
<b>D. Financial &amp; Management Reporting</b>				
21	Consolidation model and supporting material	NR	-	-
22	Audited financials	R	-	-

Legend:				
"R"	Received			
"NR"	Not Received			
NR	High Priority – Not Received			
"–" Not Requested / Not Necessary				
Ref	Request	Subsidiary		
<b>D. Financial &amp; Management Reporting</b>		PREPA	LUMA	Genera
23	External audit errors identified in FY2021 and FY2022 (KPMG)	R	-	-
24	Going concern	R	-	-
25	Auditor communications	R	-	-
26	Management reporting package	NR	-	-
27	Internal audit findings	-	NR	-
<b>E. Systems &amp; Finance Technology</b>		NR	NR	-
28	Systems landscape (IT Systems Context Diagrams)	NR	NR	-
29	Finance and technology initiatives	NR	NR	-
<b>F. Other</b>		-	R	-
30	Field Reporting Manual	-	R	-
31	New Accounting Policy Tracker	-	R	-
32	System Remediation Plan	-	R	-
33	Operating Management Agreements (LUMA and Genera)	R	-	-
34	Shared Services Agreement	R	-	-
35	Fiscal Plan – PREPA	R	-	-
36	Consultants Contracts	R	-	-
37	Schedule of Accounts per Company	-	NR	-
38	Functional design document PREPA (Fusionworks)	NR	-	-
39	List of essential reports (Fusionworks)	NR	-	-
40	Modules Implementation for Oracle Cloud (Fusionworks)	NR	-	-
41	CWIP Sub-Ledger	NR	-	-
42	Cavanaugh Macdonald Reports	R	-	-
43	RFP of BPO	NR	-	-
45	KPMG Documents (49 in total)	Partial	-	-
47	Revenue Recognition Policy	-	R	-
48	PREPA's Review of FTI's Report – Discussion Topics and Responses	R	-	-
49	PREPA's Review of FTI's Report – Annexes	R	-	-
50	PREPA Oracle Cloud Implementation Project Overview	R	-	-
51	BOD Package – F&A Future State Recommendations (2020)	R	-	-

# Data Request List

Below is a summary of documents requested by FTI from the FY 2022 KPMG portal.

Legend:

"R" Received

"NR" Not Received

"-" Not Requested / Not Necessary

Subsidiary					
Ref	Request	PREPA	LUMA	Genera	Subsidiary
<b>Documents from KPMG Portal</b>					
1	LUMA Procurement Manual	R	-	-	
2	CoA - 027 B-01 FS Grouping	R	-	-	
3	GL Journals Creators and Posters	R	-	-	
4	General Journal for Trial Balance (2 files)	R	-	-	
5	Bank Accounts Flow of Funds	R	-	-	
6	Bank Accounts Inventory	R	-	-	
7	AR Government Details	R	-	-	
8	Fed Funds Revenue Entry for FY22	R	-	-	
9	FMA Flash Report Letter	R	-	-	
10	GASB 68 - Legal Opinion	R	-	-	
11	CWIP Certification	R	-	-	
12	GMN 2021-22 Consolidado pr BI PID (budget)	R	-	-	
13	PREPA FA by Category	R	-	-	
14	Gastos Estimados - Todos los Proyectos	R	-	-	
15	CILT Cap Analysis	R	-	-	
16	2022 Federal Revenue FEMA 23	R	-	-	
17	Understanding of IT	R	-	-	
18	Disaster Recovery Plan	R	-	-	
19	Data Security Plan	R	-	-	
20	Technology Business Continuity Plan	R	-	-	
21	Audit Response (on systems)	R	-	-	
22	Cybersecurity Incident Response Plan	R	-	-	
23	Guia Niveles Acceso	R	-	-	
24	Change Management Process	R	-	-	
25	HUB Advance Financials	R	-	-	
<b>KPMG Documents</b>					
26	PREPA HoldCo Financials	R	-	-	
27	ERS Retirement System Audit	R	-	-	
28	Going Concern Memo	R	-	-	
29	2021 GAGAA Report Final	R	-	-	
30	Monthly Monitoring Reports June 2022	R	-	-	
31	67DepreciationAnalysis	R	-	-	
32	68CapitalAssetsImpairment	R	-	-	
33	GASB 101 (employee compensation)	NR	-	-	
34	272 Subsequent TB	NR	-	-	
35	039 Bank Recs	NR	-	-	
36	048 AR Aging	NR	-	-	
37	050 E-03 Unbilled Receivable Analysis	NR	-	-	
38	051 AR/AP Analysis (interco balances)	NR	-	-	
39	058 F-04 Material Obsol Reserve Analysis	NR	-	-	
40	059 Politics de Obsolescencia	NR	-	-	
41	64 Capital Assets Rollforward	NR	-	-	
42	65 Additions	NR	-	-	
43	72 CWIP	NR	-	-	
44	101 Revenue Recognition Analysis	NR	-	-	
45	106 CILT	NR	-	-	
46	21 GASB 61 - Reporting Unit Memo	NR	-	-	
47	28 Trial Balance as of June 2022	NR	-	-	
48	49 AR Allowance	NR	-	-	
49	66 Capital Assets Retirements	NR	-	-	

# Typical Key ERP Reports List

ERP should serve as the single source of truth for all types of required financial reporting.

Ref	Request	Available?	Ref	Request	Available?	Ref	Request	Available?
<b>A. General Ledger</b>			<b>D. Revenue and Accounts Receivables</b>			<b>H. Other</b>		
1	Trial Balance Report – Summary and Detailed	Yes	17	Revenue by Customer	LNR	33	Asset Retirement by Company or Cost Center	Yes
2	Profit and Loss / Income Statement	Yes	18	AR to GL Reconciliation	LNR	34	Capital Assets to GL Reconciliation	LNR
3	Journal Line Detail Activity	Yes	19	Customer Credit Hold	LNR	<b>E. Collections</b>		
4	Chart of Accounts and Hierarchy	Partial - CoA List only	20	AR Unposted Items	LNR	35	Open PO by Cost Center / Department	LNR
5	Budget Summary	Yes	21	AR Aging	Yes	36	Purchasing Activity Register	LNR
6	Budget Details	No	22	Collections Summary by Delinquent Customer	LNR	37	Cost of CWIP by Asset	LNR
7	Allocation Listing	NR	23	Dunning History	LNR	38	Payroll to GL Reconciliation	HRIS System
8	Unposted Journal Entries	NR	<b>F. Cash Management and Treasury</b>			39	Payroll Register	HRIS System
9	Period Close Summary - Exceptions Report	NR	24	Cash Flow Statement	Yes	40	Payroll Tax Liability	HRIS System
<b>B. Accounts Payable</b>			25	Unreconciled Bank Statement Line Items	LNR	41	Employee Headcount	HRIS System
10	AP Aging	Yes	26	Cash Forecast Report	LNR	<i>LNR = List of Reports Not Received</i>		
11	Vendor Register	LNR	27	Cash in Transit Report	LNR			
12	Payment Exception	LNR	28	Bank Account Listing Report	Manual			
13	AP to GL Reconciliation	LNR	29	Bank to GL Reconciliation Report - Daily & Monthly	LNR			
<b>C. Expense Management</b>			<b>G. Capital assets</b>					
14	Expense Auditing	LNR	30	Capital Assets Register	Yes			
15	Expense Detail by Category	LNR	31	Capital Assets Transactions	LNR			
16	Expense to GL Reconciliation	LNR	32	Asset Transfer Reconciliation	LNR			

# Best Practice for Account Reconciliations

**The FY 2022 ICFR identified that PREPA is not reconciling accounts or they are not reconciled in a timely manner. To achieve an optimized close process to shorten the audit timeline, PREPA should follow the following guidance around how frequently reconciliations should be done for significant balance sheet accounts.<sup>1</sup>**

Recommended Frequency: Monthly		Recommended Frequency: Monthly		Recommended Frequency: Quarterly	
Balance Sheet	Ref Financial Statement Line Item	Balance Sheet	Ref Financial Statement Line Item	Balance Sheet	Ref Financial Statement Line Item
Current assets	1 Cash and cash equivalents	Current liabilities	14 Accounts payable and accrued liabilities	Non-current liabilities	31 Claims and judgments
	2 Accounts receivable, net		15 Current portion of bonds payable		
	3 Accounts receivable from insurance companies and U.S. Federal Government, net		16 Current portion of notes payable		
	4 Leases receivables		17 Current portion of lease liability		
	5 Fuel inventory		18 Accrued interest		
	6 Materials and supplies		19 Customer deposits		
	7 Prepayments and other assets		20 Compensated absences		
	8 Restricted cash and cash equivalents		21 Unearned revenues		
	9 Long-term portion of leases receivable		22 Compensated absences		
	10 Depreciable capital assets, net		23 Customer deposits and others		
Non-current assets	11 Non-depreciable capital assets	Non-current liabilities	24 Unearned revenues	Deferred outflows of resources	32 Related to other post-employment benefits
	12 Right-of-use lease assets		25 Notes payable		33 Asset Retirements Obligations
	13 Related to debt refunding		26 Bonds payable		
Recommended Frequency: Monthly					
Balance Sheet		Ref Financial Statement Line Item		Balance Sheet	
Deferred outflows of resources		29 Related to derivative instruments		Deferred outflows of resources	
Non-current liabilities		30 Fair value of derivative instruments		Non-current liabilities	

1. This is based on best practice based on FTI's experience. This is a high-level list of balance sheet accounts and subject to change.

2. There will be portions of these reconciliations that need to be done monthly for payments/receipts into pension accounts, but valuation work should be done annually.

# COSO Internal Control Integrated Framework

**Remediating controls and establishing a strong control environment is essential for mitigating risks, ensuring accuracy and compliance, and enhancing transparency in financial reporting.**

Internal Control Component	Definition	Principles
Control Environment	The company's top-level environment with respect to controls. This includes elements such as the ethical "tone at the top," and the effectiveness of the Board's Audit Committee in its high-level oversight of financial reporting.	<ul style="list-style-type: none"> <li>■ Demonstrate commitment to integrity and ethical values</li> <li>■ Ensure that board exercises oversight responsibility</li> <li>■ Establish structures, reporting lines, authorities, and responsibilities</li> <li>■ Demonstrate commitment to a competent workforce</li> <li>■ Hold people accountable</li> </ul>
Risk Assessment	The assessment of risks of the various processes and data points that feed into the company's financial reports. For example, a process that is highly susceptible to fraud would be considered to be a high-risk area.	<ul style="list-style-type: none"> <li>■ Specify appropriate objectives</li> <li>■ Identify and analyze risks</li> <li>■ Evaluate fraud risks</li> <li>■ Identify and analyze changes that could significantly affect internal controls</li> </ul>
Control Activities	The way in which controls are actually designed and implemented within the company, so as to address the identified risks.	<ul style="list-style-type: none"> <li>■ Select and develop control activities that mitigate risks</li> <li>■ Select and develop technology controls</li> <li>■ Deploy control activities through policies and procedures</li> </ul>
Information & Communication	The way in which information within the company is gathered and shared, both to people within the company responsible for financial reporting, and to external users of financial reports.	<ul style="list-style-type: none"> <li>■ Obtain, generate, and use quality information</li> <li>■ Communicate internal control information internally</li> <li>■ Communicate internal control information externally</li> </ul>
Monitoring	The way in which the effectiveness of controls are monitored by company management.	<ul style="list-style-type: none"> <li>■ Perform ongoing or periodic evaluations of internal controls</li> <li>■ Communicate internal control deficiencies</li> </ul>



# IT General Controls (ITGC)

**ITGC were specifically called out as a remediation area. Implementing ITGC is essential for ensuring integrity and supporting reliable financial reporting.**

- ITGCs are an essential component of a system of internal controls designed to ensure the integrity of financial reporting
- An ITGC framework is typically adopted from public standards such as COSO, COBIT, ISO 27001, or NIST
- ITGCs focus on IT systems such as applications, operating systems, databases, and the supporting IT infrastructure
- ITGCs ensure IT and security activities are managed and governed according to policies and procedures
- ITACs exist within IT applications and address risks related to system inputs, outputs, and internal processing
- Together ITGCs and ITACs ensure the integrity of data and processes across the IT environment to manage and mitigate risk

## ACCESS TO PROGRAMS & DATA

- Policies & Procedures
- Segregation of Duties
- Access Requests & Periodic Review
- Passwords
- Privileged Users
- Physical Access



## PROGRAM CHANGE & DEVELOPMENT

- Methodology
- Data Migration
- Testing
- Reviews
- Go-live
- Post-Implementation



## COMPUTER OPERATIONS

- Job and Process Monitoring
- Backup and Recovery
- Incident Resolution



## PROGRAM CHANGES

- Maintenance Activities
- Change Requests





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