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To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Dear Mayor and Member of the Municipal Legislature:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)** as of and for the fiscal year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the **Municipality** internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discuss below, we identified certain deficiencies in internal control that we consider to be 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider 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 following deficiencies in internal control to be significant deficiencies:

The following situations were identified during the performance of our internal controls audit procedures for the fiscal year ended June 30, 2016 and in accordance with above professional standards need your attention:

2016 – 1 Deficiencies in Equipment usage of the Homeland Security Program

As part of the proposal of the Homeland Security Grant Program, the **Autonomous Municipality of Caguas (Municipality)** will purchase necessary equipment for other municipalities in the region. We noted that management didn't have adequate internal control procedures in place in order to assure that the equipment transferred to other municipalities in the region are safeguarded and used for allowable activities.

In the sample of equipment, we noted that a municipality didn't have adequate records in order to assure that the vehicles and equipment purchased with these funds are used only in allowable activities. The records provided for evaluation, didn't provide information about the use of the vehicles and the person responsible for the safeguard.

2016 – 2 BADECO funds administered

During our internal control test performed over the **Municipality** regarding the loans administered by BADECO, we noted some deficiencies:

- Case No. V-2009-02 – The last registered payment is documented as of June 2013. No written evidence of collection or referral to legal advice documented in the file.
- Case No. 1217745 – The Credit Report indicated that it was unsatisfactory to give the loan. No comments were found in the file that mitigate this situation.
- Case No. 1216838 – The participant works for the Autonomous Municipality of Caguas. Credit report indicated serious delinquency. No comments were found in the evaluation related to these delinquencies. The participant filed a bankruptcy on May 3, 2013.
- Case No. PEE-30-001-2016 – One of the signatures of approval of the committee, was made on April 7, 2016. One day after the loan was signed. No evidence that she is the owner of the property, which was required to be provided according to the evaluation forms included in the file.
- Case No. PEE-30-011-2012 – No evidence that she is the owner of the property. Evidence of letters indicating due payments from April 2015. No other evidence of collections was found in the file.
- Case No. PEE-30-078-2011 – No evidence that she is the owner of the property. Evidence of letters indicating due payments from July 2015. No other evidence of collections was found in the file.

This communication is intended solely for the information and use of **Autonomous Municipality of Caguas** management, and other within the organization, Commonwealth of Puerto Rico, federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Díaz-Martínez, PSC
Certified Public Accountants and Consultants

Caguas, Puerto Rico
May 8, 2017

AICPA Governmental Audit Quality Center