López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

March 20, 2017

To the Honorable Mayor
and the Municipal Legislature
Municipality of Arroyo
Arroyo, Puerto Rico

In connection with our audit of the basic financial statements of the **Municipality of Arroyo** as of and for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

Also, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatements, we performed test over the **Municipality of Arroyo's** compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion or overall compliance with such provisions.

As a result of our evaluation, we noted certain areas where financial matters should be considered, procedures improved and administrative controls strengthened. This memorandum summarizes our comments and suggestions. These comments are not significant enough to be considered significant deficiencies as defined by by AU Section 325 "Communicating Internal Control Related Matters Identified in an Audit". A separate report dated March 20, 2017 contains our report on significant deficiencies in the Municipality's internal control structure, and separate report dated February 20,2017 contain our report on compliance with laws, regulations, contracts, and grants based on an audit of the financial statements. This letter does not affect our report dated March 20, 2017 on the financial statements as of and for the year ended June 30, 2016.

We will hope to provide our services you in the next fiscal year audit. Thank you for your trust in our Firm.

Very truly yours,

Angel Alfredo López Vega
President

López-Vega, CPA, PSC

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

I. Financial Matters

A. Payroll and Related Liabilities – Personnel, Employment and Rate Authorization

Our test of twenty (20) employee files revealed the following:

Deviation	Cases
The I-9 form was not found in the employee file.	5
The W-4 form was not found in the employee file.	2
The Retirement's file did not update	15

Recommendation:

We recommend that the Municipality should improve its internal control and procedures in order to assure that the employee's files included all required documents. We also recommend a monitoring process in order to assure the accuracy of the documentation and the correction of the errors founded in a reasonable lapse of time.

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II. Compliance Matters

A. Cash Management

In our compliance audit of the cash management requirement we examined ten (10) fund requisitions of the CDBG State Program and we found the following situation:

Program CFDA No.	Deviation	Cases
14.228	We found a delay fifty-two (52) days between the day the Municipality received the funds and the disbursement day.	1

Recommendation:

We recommend Management strengthens its disbursement procedures to minimize the time elapsed between the transfer of funds and the disbursements made by the Municipality.

B. Program Income

In our compliance audit of program income of the CDBG State Program and we found the following situation:

Program CFDA No.	Deviation	
14.228	Quarterly were not submitted on time.	1

Recommendation:

We recommend to management to submit all documentation on time.

C. Procurement

During our verification of three (3) contract related to Community Development Block Grant, we noted the following situations:

Program CFDA No.	Deviation	Cases
14.228	The contract not included provisions for granting access to GAO.	2

The Program should strengthen its internal supervisory quality controls in order to ensure performance and compliance of the procedures. Also, management has to train the employees to comply with the procurement contract provisions requirements.