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March 1, 2017

To the Honorable Mayor and
the Municipality Legislature
Municipality of Manatí
Manatí, Puerto Rico

Dear Mr. Sánchez:

I have audited the financial statements of The Municipality of Manatí; Puerto Rico (The Municipality) for the period ended June 30, 2016 and has issued my report dated February 28, 2017. Professional standards require that I provide the following information related to the audit.

My Responsibility under U.S. Generally Accepted Auditing Standards
As stated in my engagement letter dated March 1, 2017, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statement are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control procedures of the Municipality. Such considerations were surely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies
Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Municipality as described in Note 1 to the basic financial statements.

Audit Adjustments
For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Municipalities financial reporting process (that is, cause future financial statements to the materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Municipality, either individually or in the aggregate, indicate matters that could have a significant effect on the Municipalities financial reporting process.

Difficulties Encountered in Performing the Audit
I encountered some difficulties in dealing with management in performing my audit for cash and capital assets.

Management Letter Comments
In planning and performing my audit of the financial statements of the Municipality as of and for the year ended June 30, 2016. We noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in the operating efficiencies and are summarized as follows:

General Fund Financial Condition (Deficit)
Improvement needed in the accounting procedure for the General Fund

The general fund unrestricted balance presents accumulated deficit of ($9,488,705) at June 30, 2016, cause principally to an excess of the expenditure over revenues on prior years. The actual revenues over expenditures create excess of superavit during year of $580,405. Budget revenue should be revised in a monthly basis to adjust the expenditure approved to the actual revenue to prevent to finish with deficit during the year. Refer to finding 2016-01.

Recommendation
The Municipality should prepare expense comparisons to budget figures in a monthly basis in order to revise and evaluate revenue and to adjust disbursements to the revenues receives to comply with the Standards of Financial Management Systems for CFR, with GASB and with requirements stated in *(OMB) Circular A-133*. The Municipality should implement measures to reduce the Municipal deficit. The Municipality should evaluate the impact in the revenues related to the change in construction taxes and the increase in the real and personal taxes, for controlling the approval of disbursements.

Management Response
The Municipality management indicated that although they understand the deficit situation they plan to implement certain measures to reduce the deficit starting with fiscal year 2011 while complying with their obligation related to basic services that are provided to citizens that cannot be reduced or eliminated.

Financial Reporting Accounting Records

During the performance of our audit procedures the following exceptions were noted:

The Municipality's accounting is under the transition of a new system; therefore, it records revenues and expenditures in an imprecise form, since the new program does not generate closing entries for the year. In addition, the accounting records are not integrated and do not provide for, a self-balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and change therein.

A Municipality's accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America and determine and demonstrate compliance with finance, legal and contractual provisions as established.[1]

The Municipality of Manatí has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with accounting principles generally accepted in the United States of America, the governmental accounting, the financial reporting principles issued by the Governmental Accounting Standards Board (GASB), and the OMB Circular A-133.

Due to the deficiencies mentioned above, the examination of the general-purpose financial statements for the year ended June 30, 2016, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designated to provide the information as it is presented in the financial statements, was necessary to obtain such information from various department and persons within the Municipality and from numerous accounting records, which are not integrated. This situation can cause the financial statements not to present all the assets, liabilities, revenues and expenditures of the Municipality.

Recommendation

In order to streamline the accounting and reporting systems and provide proper closing of records and adequate and timely information, we recommend the Municipality to consider hiring a programmer to fix all the shortcomings of the system. The Municipality should implement the accounting system that allows the preparation of monthly and year-end financial statements in accordance with Accounting Principles Generally accepted in the United States of America applicable to government entities.

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[1] Law 81 of 1991, Law of Municipalities Autonomous, article 8.010 fiscal Organization and Accounting System, Legal subsection (b) and OMB Circular A-133.

This plan should provide for the following:

Accounting and Reporting System

- Adequate training to all accounting personnel in order to improve the understanding of the system.
- The preparation of periodic financial reports prepared and submitted to the Federal government and the preparation of the general purpose financial statements in accordance to accounting principles generally accepted in the United States of America.

Municipality Response
The Municipality management indicated that they have taken serious measures to minimize the impact of this condition and expects to continue correcting then in the near future.

Test of Compliance and Internal Control

Payroll Test
Based on our payroll and compliance test we selected 60 files of total employees of the Municipality using a sampling method. Results of the test present that employee records selected 59 do not have exceptions.

Disbursement and compliance test
We have examined 62 vouchers of disbursement and compliance test according to the Law Num. 81 Law for Autonomous Municipalities as amended, and the Federal Applicable Laws, we have found 2 exceptions. The Municipality does not provided 27 vouchers selected for the disbursement test.

Revenue and compliance test
Based on our revenue and compliance test we selected 30 Volume Business tax declarations using our judgment base on materiality. Result of these test do not present exception.

If you have any doubt, do not hesitate to contact me, at the phone number (787) 879-4433.

Cordially yours,

Juan A. Feliciano Charneco
Certified Public Accountant