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

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

February 22, 2017

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

In connection with our audit of the basic financial statements of the **Autonomous Municipality of Cayey** 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 **Autonomous Municipality of Cayey'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 AU Section 325 "Communicating Internal Control Related Matters Identified in an Audit". A separate report dated February 22, 2017 contains our report on significant deficiencies in the Municipality's internal control structure, and separate report dated February 22, 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 February 22, 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,

Ángel 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. Expenditures for Goods and Services and Account Payables – Purchasing and Receiving

During our examination of the Municipality's procedures related to the purchasing and receiving process, we examined fifteen (15) disbursement vouchers which belonged to the 21st Century Community Learning Centers Program, ten (10) disbursement vouchers of Public Housing Program, fifteen (15) which belonged to Head Start & Early Head Start, ten (10) disbursement vouchers of Food Program, five (5) disbursement vouchers of Capital Project and Special Revenues Funds Local and five (5) disbursement vouchers of the General Fund for a total of sixty (60) vouchers. The following will summarize the internal control exceptions noted:

CFDA No.	Deviation	Cases
93.600	The disbursement voucher was not included the official payer signature.	1
93.600	The disbursement voucher was not included the requisition.	1
93.600	The rent studies for the granting of contracts were out of date.	2
10.588	The disbursement voucher was not included the requisition.	5
14.850	The disbursement voucher was not included the requisition.	2
84.287	The disbursement voucher was not included the requisition.	1

Recommendation:

We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment and are issued according to the applicable laws and regulations.

B. Payroll and Related Liabilities – Payroll Preparation and Timekeeping

Our test of twenty-five (25) employee files revealed the following:

Deviation	Cases
The sick vacations days per compensated absences cards do not agree with the compensated absences detail prepared by client.	1
The employee's files do not have the retirement plan information.	4

Recommendation:

We recommend that the Municipality should review the personnel's files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files. Also, we recommend that the Human Resources Department should review the License Record schedule to correct any discrepancy.

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February 22, 2016

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

In connection with our audit of compliance of the **Autonomous Municipality of Cayey** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement in Accordance with the Uniform Guidance* applicable to each major federal programs for the year ended June 30, 2016 as identified in the summary of auditors' results section of the schedule of findings and questioned costs, we considered the **Autonomous Municipality of Cayey's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with (*OMB*) Super Circular.

As a result of our evaluation, we noted certain immaterial matters involving the internal control over compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement in Accordance with the Uniform Guidance* applicable to each major federal programs for the year ended June 30, 2016, as identified in the summary of auditors' results section of the schedule of findings and questioned costs, where procedures should be improved and administrative controls strengthened. This letter summarizes our comments and suggestions. These comments are not significant enough to be considered significant deficiencies as defined by AU Section 801 "Compliance Audit". A separate report dated February 22, 2017 contains our report on compliance with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Compliance Supplement in Accordance with the Uniform Guidance*, and our report on internal control over such compliance requirements. This letter does not affect our report dated February 22, 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,

Ángel Alfredo López Vega
President
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II. Compliance Matters

A. Cash Management

In our audit of fund requisitions and cash management requirement of the Public Housing, Head Start, Early Head Start, Twenty First Community Learning Centers and Food Programs we found the following deviations:

CFDA No.	Deviation	Cases
10.558	The Program generates economies during the year and these were not used or reimbursed to the pass-through agency. This situation causes that the program maintains an excessive cash balance during the year in the bank account.	Overall
93.600	The request of funds system maintained by the Municipality and the pass-through agency did not provide the Program to disburse these cash advances on a reasonable lapse of time. This situation causes that the program maintains an excessive cash balance during the year in the bank account.	Overall
14.850	The request of fund system kept by the Puerto Rico Housing Administration with the Municipality did not provide the Program to disburse these cash advances on a reasonable lapse of time. This situation causes that the program maintains an excessive cash balance during the year in the bank account.	Overall
84.287	The request of funds system kept by Department of Education with the Municipality did not provide the Program to disburse these cash advances on a reasonable lapse of time. This situation causes that the program maintains an excessive cash balance during the year in the bank account.	Overall

Recommendation:

We recommend to the Management of the Federal Program's to strengthen its controls and procedures in order to assure compliance with the agreement and to establish a procedure with the pass-through agencies that permits disburse the fund in a reasonable lapse of time required by laws and regulations. We recommend to the Federal Program's Management prepare a monthly reconciliation of checks paid against the funds received on each requisition to adjust the request of funds and reduce the cash balances in the account.

B. Equipment & Real Property Management

During our compliance audit of the equipment and real property management requirement of the Food Program we found the following situations:

CFDA No.	Deviation	Cases
10.558	During our Equipment and Real Property Management test, we found that the Program do not maintain a separate inventory record.	Overall
10.558	The equipment does not have the required property tag number assigned.	1
10.558	The acquisition date was not included in the property records.	1
10.558	The equipment was registered with an incorrect cost amount in the property records.	1

Recommendation:

We recommend Program's Management to strengthen its procedures of property management especially in the task of place the required property tags to the equipment acquired as established by the Department of Education. We recommend to the Management of the Food Program to strengthen its procedures of property management especially in the additions of equipment for the year and the cost information contained in the property records for a complete tracking of goods acquired and a reconciliation of the information.

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C. Budget

During our budget versus expenses comparison analysis of the Twenty First Community Learning Centers, we found the following situations:

CFDA No.	Deviation	Cases
93.600	During our budget versus expenses comparison analysis, we identified that the Program incurred in expenses of $98,436 in excess of the approved budget amounts for the following accounts: Rent E2632 and E2650 overdrawn by $14,749.28, Travels E2380 overdrawn by $34,757.46 and Professional Services 1290 and 2990 overdrawn by $48,929.71	Overall

Recommendation:

We recommend management designs budget in a manner that the expenses may be monthly monitored more effectively so any account overdraft is timely predicted in order to make the necessary adjustments.

D. Eligibility

During our eligibility test of the Public Housing Program we found the following situations:

CFDA No.	Deviation	Cases
14.850	The participant did not sign the Privacy Act.	1
14.850	The PHA Staff did not documented the EIV for new participants 120 days after signing the leasing contract, as stated in the leasing contract.	10
14.850	We found that residents living in the third floor have ceiling filtrations.	5

Recommendation:

We recommend management to strengthen its control procedures in order to ensure that the participant files include all documentation required by federal agencies. Also, the Municipality must ask for auctions to attend celling filtrations of the resident living in the third floor.

E. Reporting

In our reporting test of the Head Start, Early Head Start, Food, Public Housing and Twenty First Community Learning Centers Programs we found the following deviations:

CFDA No.	Deviation	Cases
93.600	We found that Monthly Financial Report were not submitted on time.	1
93.600	We found that the closing period reporting package does not included the Trial Balance to traced the total Federal Expenditure as part of the supporting documents at the time they are submitted.	Overall
93.600	We found differences between the amount reported at the closing period 425 Financial Report and the amounts maintained in the accounting records for federal expenditures, also we found differences in the Final 425 Financial Report for local expenditures.	Overall
10.558	We found that the Expenditure and Refunds report required for the program were not submitted on time.	1
14.850	The Financial Report for the fiscal year ended on June 30,2016 was submitted five (5) days late after the due date.	1
84.287	The Achievements Report was not signed by the Program Coordinator.	Overall
84.287	Differences between the amount reported to the Department of Education and the amounts registered in the accounting records by $977.	Overall

Recommendation:

We recommend the Municipality's Management to follow the contract terms and to keep documents that can support the information submitted to the pass-through entity. In addition, we recommend the Municipality's Management to reconcile differences between the quarterly report and accounting records before the report submission to the pass-through grantor. We also recommend Municipality to ensure that Reports be submitted on or before deadline and to keep the necessary documentation to support the information presented in the Reports.

F. Special Tests and Provisions – Participants and Professional Services File Tests

In our revision of the participants and professional services contracted by the Program Twenty First Century Community Learning Centers during the fiscal year 2015-2016, we found the following situations:

CFDA No.	Deviation	Cases
84.287	The program not comply with the requirement of serve to at least 95% of the total enrollment in the summer activities.	Overall
84.287	We did not found evidence of the academic needs of the participants.	5
84.287	Participants did not show an increase in academic achievement.	6
84.287	The invoice was not signed by the Program Coordinator.	6
84.287	We did not found evidence of the employee evaluation by the Coordinator.	7
84.287	We found errors in the contract term.	1
84.287	We did not found evidence about academic preparation for the Professional Services contracted.	2
84.287	We did not found evidence about professional experience for the Professional Services contracted.	2
84.287	The professional experience not match with the service offered.	1
84.287	We did not found the Health Certificate.	3
84.287	We did not found the Good Behavior Certificate.	1
84.287	We did not found the Department of Education active license.	1

Recommendation:

The Program should strengthen its internal supervisory quality controls in order to ensure performance and compliance of the procedures. Also, the management should train their staff on the file documentation and verification process.