MUNICIPALITY OF BAYAMÓN

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2016

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
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February 10, 2017

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

Sirs:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Bayamón as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Bayamón's 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Bayamón's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Bayamón's 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 discussed 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 a 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.

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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:

A. CASH

The Municipality maintained bank accounts inactive during the fiscal year 2015-2016. Those are:

Account Name	Account Number
Fondo Repav. Fase 11 Nar/Bay	254 89467
Empréstito $20,095,000	196 0882072
Empréstito $8,040,000	310 5002384
Empréstito $2,315,000	310 5002395
Empréstito $11,195,000	300011-430-001-002-09
Empréstito $9,327,000	300011-430-001-002-01
Empréstito $10,670,000	300011-430-001-002-02
Empréstito $1,410,000	300011-430-001-002-06
Empréstito $7,030,000	300011-430-001-002-07
Empréstito $9,580,000	300011-430-001-002-08
Empréstito $3,747,459	300011-430-001-006-01
Empréstito $6,030,000	300011-430-001-007-02
Empréstito $2,515,000	300011-430-001-007-04
Empréstito $10,540,000	300011-430-001-007-05
Empréstito $11,240,000	300011-430-001-002-12
Empréstito $9,045,000	300011-430-001-520-01
Empréstito $8,370,000	300011-430-001-520-02
Empréstito $325,000	300011-430-001-520-03
Empréstito $10,050,000	300011-430-001-520-04
Empréstito $4,825,000	300011-430-001-520-08
Empréstito $980,000	300011-430-001-527-05
Empréstito $13,260,000	300011-430-001-528-05
Empréstito $21,425,000	300011-430-001-528-06
Empréstito $12,060,000	30011-430-001-510-03
Empréstito $8,110,000	72-0151-01-8
Empréstito $1,440,000	300011-430-001-527-04

Recommendation

The Finance Department should verify which bank accounts will be in use and then close the inactive bank accounts in order to avoid this situation.

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B. INVENTORY

During our audit procedures we noted that the Municipality of Bayamón does not keep current, accurate records of inventory. The Municipality should perform an inventory count once a year and update the units on hand and cost of the items. This procedure provides an up-to-date listing of on-hand inventory, as well as tighter control over assets. The purpose of the physical inventory is to determine the actual quantity of inventory on hand at any given point in time.

Recommendation

According to the Municipal Administration Regulation the Municipality (Chapter VII, Section 25, b, h-5) should maintain a perpetual inventory record that controls the materials received and shipped in custody. An annual physical inventory of all remain materials in the warehouse should be performed and checked against the perpetual inventory card holder. Any difference should be investigated.

We suggest management consider annual inventory counts to better ensure the accuracy of amounts reported in the financial statements as well as better safeguarding its inventory from potential loss. We further suggest that the Municipality of Bayamón consider an inventory system that would track all pertinent information in such a way that returns, damaged items, sales, and purchases would be accounted for on a more current basis. This would benefit the Municipality of Bayamón by providing an up-to-date listing of on hand publication, and enhanced control of the assets. Also, management's decision-making ability will be improved and timelier.

C. DISBURSEMENTS

1. The disbursement vouchers were not available for examination at the moment of our test. Those are:

Date	Supplier	Check Number	Voucher	Fund	Amount
April 20, 2016	The Home Depot	141486	1602927	General	$ 2,388
May 6, 2016	Atlantic Southern Insurance	184826	1603136	General	446
September 9, 2015	COOP de Manatí	184142	1600593	General	180
April 20, 2016	Karla M. Morales Colón	141444	1602922	General	100
April 21, 2016	Amanda P. Rivera Ramos	142129	1602940	General	100
April 21, 2016	Abdel Marrero Rodríguez	142182	1602941	General	100
April 21, 2016	Axel G. Chinea Rodríguez	142257	1602942	General	100
April 21, 2016	Deyaneira Bonilla Otero	142465	1602943	General	100
April 21, 2016	Limaris M. Sweeting Mestre	142621	1602943	General	100
					$ 3,614

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Recommendation

The receipts, canceled checks, and other documents that justify a payment must be filed, according to recordkeeping requirements of the Treasury Department and other audit agencies, in order to comply with the Municipal Administration Regulation established in Section 14 of Chapter IV.

2. The disbursements vouchers or the invoices were not cancelled as paid in the following:

Date	Supplier	Check Number	Voucher	Fund	Amount
August 25, 2015	Technology Information	-	1600466	Emp. $7.4	$ 625,000
January 19, 2016	Technology Information	-	1601959	Emp. $7.4	525,000
January 15, 2016	Caribbean Equipment	118367	1601937	LC $15.8	110,958
February 5, 2016	Miguelito Asphalt	137984	1602157	LC $15.8	40,972
December 9, 2015	FDDS Management & Eng	-	1601546	Emp. $7.4	40,000
August 14, 2015	HJ Contractors & Rental	130831	1600364	Emp. $8.0	35,876
November 10, 2015	F&R Construction	-	1601250	Emp. $7.4	23,712
July 10, 2015	FDDS Management & Eng	-	1600061	Emp. $7.4	9,333
February 24, 2016	Miguelito Asphalt	138829	1602365	LC $15.8	8,925
November 24, 2015	Toledo Engineering	-	1601368	Emp. $8.0	6,280
April 26, 2016	A García & Co.	142774	1602978	General	2,100
December 11, 2015	Asociación de Maestros	184420	1601596	General	427
					$ 1,428,583

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to make the payment; as a control procedure, the documents should be stamped as paid after the disbursement procedures will be complete.

3. The disbursement voucher was not signed by the Finance Director, the Mayor or the Authorized Representative as approved, in the following:

Date	Supplier	Check Number	Voucher	Fund	Amount
April 28, 2016	Secretario de Hacienda	184758	1603015	General	$ 28,521
April 14, 2016	Secretario de Hacienda	184748	1602855	General	26,498
					$ 55,019

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Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to verify and certify the documents for payment.

D. FINANCIAL REPORTS

We observed the 4A Model Report, one of the financial reports required to Municipalities, for the period ended June 30, 2016. The report includes the income and expenditures of all programs received by the Municipality. Some differences were observed when compared the income and expenditures with the accounting books of each program prepared by Programs Accountants.

Recommendation

The Finance Department should establish procedures in order to verify and assure that the accounting information maintained by the Programs Accountants is the same accounting information maintained by the Finance Department.

This communication is intended solely for the information and use of management, Mayor and Municipal Legislature, and others within Municipality of Bayamón, and is not intended to be and should not be used by anyone other than these specified parties.

We believe that the implementation of these recommendations will provide the Municipality of Bayamón with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

Cordially,

Ortiz, Rivera, Rivera & Co.

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