TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of Vieques

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Vieques of the Commonwealth of Puerto Rico, (from now on the Municipality) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our qualified report thereon dated March 28, 2017. Our report was qualified because the Municipality was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan related to the implementation of the Governmental Accounting Standards Board (GASB) 68, "Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68". Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary. It was also qualified because the Municipality has not recorded a provision for liability related to the closure and postclosure care costs related to the operation of the landfill.

Going Concern

The **Municipality** is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 24 to the basic financial statements, that raised substantial doubt about the Commonwealth of Puerto Rico's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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Internal Control Over Financial Reporting - Continued

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 Municipality's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items #2016-02 and #2016-04 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 deficiencies described in the accompanying schedule of findings and questioned costs, as items #2016-01, and #2016-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs, as item # 2016-05.

The Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in a separate document (Corrective Action Plan) prepared by the Municipality. Municipality's responses were not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirement

This report is intended solely for the information and use of management, others within the Municipality and the United States Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 28, 2017

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of Vieques

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Naguabo of the Commonwealth of Puerto Rico, (from now on the Municipality) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the fiscal year ended June 30, 2016. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Going Concern

The **Municipality** is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). Our report on the basic financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 24 to the basic financial statements, that raised substantial doubt about the Commonwealth of Puerto Rico's ability to continue as a going concern.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Project's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality's compliance.

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Unmodified Opinion on the Major Federal Programs

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal award programs, identified in the summary of auditor's result section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2016.

Other Matters

The result of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs, as item # 2016-05.

the Municipality response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Municipality responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in a separate document (Corrective Action Plan) prepared by the Municipality. Municipality's responses were not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirement

This report is intended solely for the information and use of management, others within the Municipality and the United States Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

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Carolina, Puerto Rico

March 28, 2017

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