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

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

April 5, 2018

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, 2017, 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 April 5, 2018 contains our report on significant deficiencies in the Municipality's internal control structure, and separate report dated April 5, 2018 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 April 5, 2018 on the financial statements as of and for the year ended June 30, 2017.

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 sixteen (16) disbursement vouchers which belonged to the Head Start & Early Head Start Program, nineteen (19) disbursement vouchers of Public Housing Program, five (5) which belonged to Shelter Plus Care, five (5) disbursement vouchers of Child Care, five (5) disbursement vouchers of Federal Transit Administration, five (5) disbursement vouchers of 21st Century Community Learning Centers, two (2) disbursement vouchers of Capital Projects and Special Revenues Fund, one (1) disbursement voucher of Bond Issuance Fund and two (2) 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 rent studies for the granting of contracts were out of date.	2
General fund	The disbursement voucher was not included the requisition.	1
14.850	The disbursement voucher was not included the requisition.	1
14.850	The disbursement voucher not includes the required number of quotations.	1
20.507	The disbursement voucher not includes the required number of quotations.	3

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.

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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.	8
The regular vacations days per compensated absences cards do not agree with the compensated absences detail prepared by client.	6
The employee's files do not have the I-9 form.	1

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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April 5, 2018

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, 2017 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, 2017, 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 April 5, 2018 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 April 5, 2018 on the financial statements as of and for the year ended June 30, 2017.

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 Head Start & Early Head Start Programs we found the following deviations:

CFDA No.	Deviation	Cases
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
93.600	The request of funds was sent out of date.	2

Recommendation:

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. 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.

B. Equipment & Real Property Management

During our compliance audit of the equipment and real property management requirement of the Public Housing and Head Start & Early Head Start Programs (CFDA No. 14.850 & 93.600) we found the following situations:

CFDA No.	Deviation	Cases
93.600	The equipment was not added to the Municipality's subsidiary ledger.	21
14.850	The equipment was not added to the Municipality's subsidiary ledger.	3
14.850	The equipment inventory does not have the cost, acquisition date, property tag number and person in charge information.	3

B. Equipment & Real Property Management (Continued)

Recommendation:

We recommend Program's Management to strengthen its procedures of property management especially in the preparation of inventories and in the task of place the required property tags to the equipment acquired as established by the Department of Public Housing for a complete tracking of goods acquired and a reconciliation of the information. Also we recommends to the Program accountant to add and/or deduct from the subsidiary ledger the Property acquired and disposed for a complete accounting information.

C. Matching

Our Matching test for the Head Start and Early Head Start Program (CDFA No. 93.600) revealed the following situation:

Deviation	Cases
We found immaterial differences between expenditures reported as local share contribution in the 425-Financial Report versus the amounts maintained in the supporting documents.	Overall

Recommendation:

We recommend management to monitor the expenditures reported as local share contributions to ensure that these amounts are backed by the supporting documents.

D. Special Tests and Provisions

In our revision of the Special test and Provisions of the Public and Indian Housing Program CFDA No. 14.850) during the fiscal year 2016-2017, we found the following situations:

CFDA No.	Deviation	Cases
14.850	During our intervention, we were not provided with evidence that demonstrated the Program submitted the Annual Plan on time as required by the Public Housing Management Agent Service Contract.	Overall
14.850	During our intervention, we were not provided with evidence that demonstrated the Program has a preventive maintenance schedule and performed related to the preventive maintenance schedule. Also, we were not provided with evidence of the service request made by participants.	Overall
14.850	The depository agreement was not prepared.	Overall

D. Special Tests and Provisions (Continued)

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.

E. Special Test and Provisions – Program Governance

After the review of the Program Governance compliance requirement for the Head Start & Early Head Start Program (CDFA No. 93.600), we identified the following situation:

Deviation	Cases
The Program did not publish the financial information as required.	Overall

Recommendation:

We recomend to the Program Management to make the necesary steps and adjustments to make public the anual financial information as required, an example of this can be a publication in a well-known newspaper of the country.