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 24, 2018

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

In connection with our audit of the basic financial statements of the Municipality of Vega Baja 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 Municipality of Vega Baja'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 24, 2018 contains our report on significant deficiencies in the Municipality's internal control structure and 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 24, 2018 on the financial statements as of and for the year ended June 30, 2017.

We will hope to provide our services to 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

I. Financial Matters

A. Cash Receipts

Our test of twenty-five (25) cash receipts revealed the following situations:

Deviation	Cases
The Declaration of Business Sales Volume (Municipal License Tax Return) for the fiscal year 2016-17 was not filed in the taxpayer's file.	1
The deposit slip for the daily municipal was not available at the time of our examination.	1

Recommendation:

We recommend that the Municipality improves its internal controls in order to ensure that all the required documentation is included in the tax payers' municipal license tax files and all the documents related to the municipal daily collections are filed together and safeguarded.

B. Bids

Our test of-ten (10) bids files revealed the following exception:

Deviation	Cases
The Attendance Sheet was not filed in the bid file.	1

Recommendation:

We recommend that the Municipality improves its internal control procedures in order to ensure that the bids files contain all the supporting documents.

C. Equipment and Real Property

To determine completeness of the Capital Assets amounts reported on the financial statements, we selected a sample of ten (10) equipment items to trace them from the floor to the Equipment Subsidiary and found the following exceptions:

Deviation	Cases
We did not find the equipment item in the Equipment Subsidiary.	2
In the Equipment Subsidiary, two different equipment items had the same property number.	1

I. Equipment and Real Property (Continued)

Recommendation:

We recommend that the Municipality improves its internal control procedures in order to ensure that all equipment acquired by the Municipality is added to their corresponding subsidiary and each equipment item has a unique property number.

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April 24, 2018

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

In connection with our audit of compliance of the Municipality of Vega Baja 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 Municipality of Vega Baja'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 the Uniform Guidance.

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 program 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 Audits"*. A separate report dated April 24, 2018 contains our report on 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,* and our report on internal control over such compliance requirements. This letter does not affect our report dated April 24, 2018 on the financial statements as of and for the year ended June 30, 2017.

We will hope to provide our services to 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

II. Compliance Matters

A. Cash Management

Our test of Cash Management of **Supportive Housing Program, CFDA No. 14.235**, and **Community Facilities Loans and Grants Program, CFDA No. 10.766**, revealed the following exceptions:

Program	Deviation	Cases
10.766	We identified a delay of more than five (5) days between the day the Municipality received the funds and the day they were disbursed.	4
14.235	We identified a delay of more than five (5) days between the day the Municipality received the funds and the day they were disbursed.	2
14.235	We identified a difference between the amount requested and the amount needed for disbursement.	1

Recommendation:

We recommended management strengthens the Municipality's controls and procedures in order to ensure that the Program complies with all requirements related with cash management, especially those related to the timing of disbursements.

B. Eligibility

During our Eligibility Test of the **Supportive Housing Program, CFDA No. 14.235**, we found the following situation:

Deviation	Cases
The files did not contain the contract agreement between the landlord and the participant/tenant.	5

Recommendation:

We recommend that the Municipality reviews the participants' files to ensure completeness of the required documentation.

C. Equipment and Real Property Management

During our Equipment and Real Property Management Test of the **Supportive Housing Program, CFDA No. 14.235**, we found the following situations:

Deviation	Cases
The equipment inventory listing did not include the location, the name of the custodian person, asset condition and the amount of the federal contribution for the purchase.	5
The equipment was not available at the time of our examination.	1

Recommendation:

We recommend that the Municipality reviews the Program's inventory listing to ensure that it includes all the required asset information and performs an annual physical inventory to verify that all the equipment is properly reported.

D. Reporting – Financial Administration

Our Reporting Test – Financial Administration of the **Supportive Housing Program, CFDA No. 14.235**, revealed the following exception:

Deviation	Cases
The total expenditures presented in the Financial Report are not the same as the total expenditure registered in the General Ledger.	Overall

Recommendation:

We recommend that the Municipality strengthens its internal control procedures to ensure that the information presented in the Financial Reports submitted to the cognizant agency matches the information registered in the Program's accounting records.

E. Matching

Our Matching Test for the **Head Start and Early Head Start Program, CDFA No. 93.600**, revealed the following situation:

Deviation	Cases
The Program did not register the expenditures incurred for the local share contributions in the accounting system. Instead, they used manual working papers to register and support the amounts reported.	Overall

Recommendation:

We recommend management registers the amounts incurred as local share contributions in the accounting system to have a complete set of accounting records and for a better tracking of the transactions made during the year.

F. 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 recommend the Program's management takes the necessary steps to make public the annual financial information as required. As an example, this can be accomplished through a publication in a well-known local newspaper.