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COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CAROLINA

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2017

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March 27, 2018

Hon. Jose C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico

In planning and performing our audit of the financial statements of the Municipality of Carolina as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Municipality's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies on internal controls. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal controls.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements, that is more than inconsequential, will not be prevented or detected by the Municipality's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal controls.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies on internal controls that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations on internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

We noted certain matter that are Management Letter Comments that are not considered material weaknesses or significant deficiencies.

CURRENT YEAR MANAGEMENT LETTER COMMENTS

Management Comment 1

In the financial statements as of June 30, 2017, the Municipality presents Capital Assets, under the classification of Construction in Progress (under service concession agreement), in the amount of $5,881,403. This amount refers to the investment made at project named *Vivo Beach Club*.

This project as of June 30, 2017, is substantially completed and is generating income. However, the investment is presented as construction in progress and no depreciation charge was determined for this activity.

Recommendation

The management should evaluate the classification of this assets to determine what of such amount, should be moved to depreciable assets.

Management Comment 2

We noted that the project *San Fernando Supermarket* and *San Fernando Mall* had been under Construction in Progress in the *Propietary Funds*, for a period of more than three years. The total amount invested in the *Propietary Funds* as Construction in Progress is $6,318,994.

Recommendation

The management should present more details in the financial statements about the completion and status of these projects. Also, should consider a reclassification of the assets category to one of those depreciable assets, if any, in the financial statements.

See the action correction plan for details.

GTC

This communication is intended solely for the information and use of management, members of the Municipal Legislature and the Mayor of the Commonwealth of Puerto Rico Municipality of Carolina, and is not intended to be and should not be used by anyone other than these specified parties.

We thank all the Municipality's personnel that worked with us throughout the single audit for their cooperation and assistance.

GONZALEZ TORRES & CO., CPA, PSC