MUNICIPALITY OF BAYAMÓN

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2017

ORTIZ, RIVERA, RIVERA & CO.
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Members:
American Institute of Certified Public Accountants (AICPA)
Puerto Rico Board of Certified Public Accountants

March 19, 2018

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

Sirs and madams:

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, 2017, 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 2016-2017. Those are:

Account Name	Account Number
Alianza y refugio	052-425193
Baya Kids	052-991342
Casos Testigos de Jehova	75-0205-01-5
Donativo legislativo	052-236277
Empréstito $2,315,000	310 5002395
Empréstito $8,040,000	310 5002384
Fideicomiso	052-973255
Federal Transit Administration	052-882268
Guarantee Loan Fund	31-05002076
Homeless CSBG	052-225542
Loan Repayments	31-05002054

Recommendation

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

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

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materials remain 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

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

Date	Supplier	Check Number	Voucher	Fund	Amount
August 26, 2016	MJC Contractors Services	119636	17000451	E $15,800 m	$ 30,578
November 18, 2016	Angel L. Ramos	152257	17001242	E $15,800 m	36,000
October 14, 2016	Antonio Velazquez Pinto	150679	17000896	Servicios y Obras	240,000
					$ 306,578

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.

D. FINANCIAL REPORTS

We observed the 4A Model Report, one of the financial reports required to Municipalities, for the period ended June 30, 2017. 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, basically because of the electronic transfers made into accounts were not register as revenue or expenses.

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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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