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

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

March 20, 2019

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

In connection with our audit of the basic financial statements of the **Autonomous Municipality of Arroyo** as of and for the year ended June 30, 2018, 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 Arroyo'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 March 20, 2019 contains our report on significant deficiencies in the Municipality's internal control structure, and separate report dated March 20, 2019 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 March 20, 2019 on the financial statements as of and for the year ended June 30, 2018.

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,

Angel 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. Payroll and Related Liabilities – Personnel, Employment and Rate Authorizations

Our test of fifth teen (15) employee files revealed the following:

Deviation	Cases
• The I-9 form was not found in the employee file.	4
• The W-4 form was not found in the employee file.	7

Recommendation:

We recommend the Municipality to improve its procedures to assure that the Human Resources Department maintains updated employees' files.

B. Expenditures for Goods and Services and Accounts Payable – Purchasing

During our examination of the Municipality's procedures related to the purchasing and receiving process, we examined twenty nine (29) disbursement vouchers of Disaster Grants Fund and thirty one (31) disbursement vouchers of the General Fund for a total of sixty (60) vouchers. The following will summarize the internal control exceptions noted:

Deviation	Cases
• There was no evidence of quotation process.	7
• Purchase order was not included in disbursement documentation.	3
• Original Invoice was not included in disbursement documentation.	1
• No evidence of receiving report or certification of the Municipality's Employee who have knowledge of the receiving of goods and services.	1

Recommendation:

We recommend management to improve its monitoring procedures to assure that disbursements include all the supporting documents and approvals in compliance with laws and regulations.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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

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

March 20, 2019

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

In connection with our audit of compliance of the **Autonomous Municipality of Arroyo** 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, 2018 as identified in the summary of auditors' results section of the schedule of findings and questioned costs, we considered the **Autonomous Municipality of Arroyo'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 programs for the year ended June 30, 2018, 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 March 20, 2019 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 March 20, 2019 on the financial statements as of and for the year ended June 30, 2018.

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

II. Compliance Matters

A. Cash Management

Our test of the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program cash average, revealed the following:

CFDA No.	Deviation	Cases
97.036	During one (1) month, the cash bank reconciliation for the Disaster Grant bank account reported a bank overdraft.	1

Recommendation:

We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by regulation.

B. Reporting Test

In our Reporting Test of Section 8 Housing Choice Voucher Program, we found the following situations:

Program	Deviation	
14.871	The report (REAC- Unaudited/ A133) was not submitted.	1

Recommendation:

We recommend management to strengthen its controls and procedures in order to assure that the submission of the reports is made in a timely manner.