MUNICIPALITY OF LARES

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2019

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Puerto Rico Board of Certified Public Accountants

March 13, 2020

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

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 Lares as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Lares 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 the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 matters involving the internal control and other operational matters that are presented for your consideration.

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.

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

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those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

A. GENERAL FUND DEFICIT

We observed that the Municipality closed its operations at June 30, 2019 with an accumulated deficit of $1.3 million. The Municipality did not meet the collection expectations for the construction excise taxes, municipal taxes, miscellaneous, and charges for services by $135,356, $106,106, $153,338, and $ 558,656, respectively.

Recommendation

Based in the "Reglamento para la Administración Municipal" Chapter II, Section 3, the Municipality have to be careful when preparing the budget to not overestimate income because as the year end, they could or could not have complied with projected expectations, this practice could help to avoid ending in deficit. We recommended the Municipality to revise and make the appropriate changes to the budget taking into account revenues from current information.

B. CASH

- The Municipality maintained inactive bank accounts during fiscal year 2018-2019. Those were:

ACCOUNT NAME	ACCOUNT NUMBER
Desperdicios Solidos	300-364-3769
Efectivo RC094	156-236095
AFI C.Matilde y Mej Perm	156-274264
EDA Camino	300-307-8360

Recommendation

The Finance Department should close inactive bank accounts in order to avoid this situation.

- We observed that the bank account reconciliation for "Cuenta corriente" (156-831015) as of June 30, 2019, include checks outstanding made for more than six months. Based on the Municipal Administration Regulation, Chapter IV, Section 13, the outstanding checks for more than six months after made should be cancelled and the amount included in the cash balance

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Recommendation

The Municipality should evaluate the outstanding checks list on a monthly basis, and investigate the checks that have not been cleared with the bank for an unreasonable period of time (i.e. three to six months), contact the payee and determine the underlying reasons as to why these have not been presented to the bank for payment.

The information in this letter is intended solely for the use of those charged with governance of Municipality of Lares and is not intended to be and should not be used by anyone other these specified parties.

We sincerely appreciate the opportunity to provide services to Municipality of Lares and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let us know.

Cordially,

Ortiz, Rivera, Rivera & Co.

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