MUNICIPALITY OF QUEBRADILLAS

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2020

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Puerto Rico Board of Certified Public Accountants

March 25, 2021

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

Dear 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 Quebradillas as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Quebradillas'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 Quebradillas's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Quebradillas'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

1. The Municipality has some bank accounts inactive during the fiscal year 2019-2020. Those are:

Account Name	Account Number
"Código de Orden Público"	084 043938
"Pista Atlética"	084 043903

Recommendation

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

2. The operational bank account conciliation of June 2020 includes some outstanding checks made for more than six months. Based on 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.

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.

B. BUSINESS TYPE ACTIVITIES

During the audit we noted various procedures of the Municipal Enterprises that should be improved. Those are:

- Review the accuracy of financial information that should be maintained and recorded in the general ledger. For the fiscal year 2019-2020 only some months of accounting were included on the general ledger.
- Establish internal control, system process, financial analysis, and budgeting.

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Recommendation

We suggest improving the areas mentioned to have efficient and effective process for accounting that produce timely and accurate financial reports for use in decision-making and for annual audit.

This communication is intended solely for the information and use of management, Mayor and Municipal Legislature, and others within Municipality of Quebradillas, 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 Quebradillas 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,

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