MUNICIPALITY OF HATILLO

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2021

ORTIZ, RIVERA, RIVERA & CO., LLC
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Puerto Rico Board of Certified Public Accountants

March 21, 2022

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

Dear Sirs:

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 Hatillo as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered Municipality of Hatillo'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 Hatillo's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Hatillo'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 2020-2021. Those are:

Account Name	Account Number
ADFAN Amas de Llaves	068-308248
Fema 4336	068-380666

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) We observed the bank accounts reconciliations as of June 30, 2021, an noted some include checks outstanding made for more than six months. Those are:

Account Name	Account Number
Housing Voucher Programs	068-831439
Punta Maracayo	068-023960

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. INTERFUND BALANCES

The Finance Department obtained loans and/or paid expenses from other programs and then receives the reimbursements. Some of these transactions were not recorded on accounting books and debt balances cannot be clearly determined.

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Recommendation

Interfund balances should be carefully monitored by the accounting personnel. In addition, differences identified should be reconciled promptly to prevent misstatements in the financial records.

C. REPORT

The Finance Department is in process to update the "Model 4A" Financial Report in order to summarize the income and the expenditures by month and the available amount in cash at the end of the month for all the funds.

Recommendation

The Finance Department should prepare some financial reports monthly and at the end of fiscal year to know the financial position and to evaluate the municipal operation. Those reports should be submitted to Municipal Management Office.

D. DISBURSEMENT TEST

The disbursement vouchers were not signed by the Mayor or Authorized Representative, Finance Director and/or the Pre-Interventor as approved in the following:

Date	Supplier	Check Number	Amount	Program or Fund
August 28, 2020	Quaoar Solutions Group	67	$ 273,424	Emp 712
July 27, 2020	Constructora Aguada	1034	244,715	Rural
September 1, 2020	Manuel Zapata Smith	WT-2240	12,000	General
October 6, 2020	The Phoenix Company	WT-2314	5,119	General
September 9, 2020	Secretario de Hacienda	WT-2246	1,265	General
October 28, 2020	Luis R. Nieves Velázquez	WT-2350	1,200	General
			$ 537,723	

Recommendation

Based on the Municipal Code of Puerto Rico, Chapter VIII Article 2.090, the Finance Director is responsible to legality, accuracy, correction of documents and all expenses by payment any concept.

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E. CASH RECEIPT TEST

We observed some collections corresponded to "Punta Maracayo Resort". Those are deposited daily on the bank account, but the collections are register on the accounting system days later. The collections should be register on the accounting system the same day as collected, in order to conciliate the daily reports and deposits.

Recommendation

All the collection made should be through the financial accounting system used by the Municipality. The Finance Department should evaluate collection process of the resort and make additional procedures to register the financial information in the accounting systems immediately as receipt realized.

F. CONTRACT TEST

We observed some contracts of our sample were submitted to the Puerto Rico Comptroller's Office after the 15 days required after signed. Those are:

Contract Number	Date Signed	Date Submitted	Days in Excess
2021-000044	July 7, 2020	August 6, 2020	15
2021-000073	July 1, 2020	August 6, 2020	21
2021-000101	July 31, 2020	September 3, 2020	19
2021-000106	July 20, 2020	September 3, 2020	30
2021-000153	September 3, 2020	September 23, 2020	5
2021-000213	October 2, 2020	December 17, 2020	61
2021-000219	October 30, 2020	December 1, 2020	17
2021-000231	December 4, 2020	February 1, 2021	44
2021-000255	January 15, 2021	February 9, 2021	10
2021-000256	November 24, 2020	March 16, 2021	97
2021-000265	December 18, 2020	April 7, 2021	95
2021-000270	December 18, 2020	June 22, 2021	171
2021-000290	January 29, 2021	June 9, 2021	116
2021-000301	February 19, 2021	March 15, 2021	9

Recommendation

Based on the Law 18 by October 30, 1975, The Municipality should be aware of the requirements of submission on time of the contract signed fifteen days after the granted.

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

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