MUNICIPALITY OF ARECIBO

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2020

ORTIZ, RIVERA, RIVERA & CO., LLC
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
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Puerto Rico Board of Certified Public Accountants

February 8, 2022

To the Honorable Mayor and
Municipal Legislature
Municipality of Arecibo
Arecibo, 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 Arecibo 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 Arecibo'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 Arecibo's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality of Arecibo'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
Justicia Casa Protegida Luisa Capetillo	3201973770
Corporación Arecibo Repagos	3201593087
Oriental Child Care ARRA - Mun Arecibo	3201707672
Corporación Ganancias - Negocio	3201312392
Aport. Participantes Villa Campestre	3201306683

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 that some bank accounts reconciliations as of June 30, 2020, did not have the approvement of the Finance Director and were not signed by the preparer. Those are:

Account Name	Account Number
Sección 8 Vouchers	3201712809
Family Self Sufficient Sec. 8	3201098856
Ayuda Vivienda	3201650440

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 12, the Finance Director should verify and sign each month bank reconciliation.

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3. We observed some bank account reconciliations as of June 30, 2020, that included outstanding checks made for more than six months. Based on the Municipal Administration Regulations, Chapter IV, Section 13, checks pending for more than six months after being made must be cancelled and the amount included in the cash balance. Some of these conciliations were updated for the financial statements preparation but the adjustments have not been included in the accounting system yet.

Account Name	Account Number
Cuenta Corriente Oriental Bank	3201973251
Cuenta Nómina	3201270102
Violencia Doméstica	3201982979
Aportación Child Care	3201243422
Cuenta Corriente Fondos Federales	3201332978
HUD Nómina Oriental Bank	3201041264
Home Program	3201123700
Fondo Especial Oriental Bank	3201431595
Proyectos Especiales	3201036314
Child Care Program	3201404914
Centro Comunales	3201540019
Juventud del Ayer Gericultura	3201989406
Asistentes en el Hogar	3201150899
Sección 8 Vouchers	3201712809
Miscellaneous Revenue Oriental Bank	3201008995
Desperdicios Sólidos	3201587898
Emergencias Médicas 2	3201162410
Programa Oasis de Paz y Esperanza	3201771905
Gimnasios	3201257288
Casa Protegida Luisa Capetillo	3201869684
Fema Huracán Maria	1513829143

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.

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B. 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

Based on the Regulation for the Municipal Administration, Chapter II, Section 11, at the end of each fiscal year, the Finance Director should prepare and submit to the Commissioner some reports, including the revenues and expenditures verified during the year.

C. DISBURSEMENT TEST

1. During our test, some disbursement vouchers lack some necessary signatures as approvement, in the following:

Date	Supplier	Check Number	Amount	Fund
August 30, 2019	Director de Finanzas	160	$42,464	Special
August 21, 2019	Sistema de Retiro de Puerto Rico	2092	1,884	General
May 27, 2020	ABC Medical	16092	587	General
January 15, 2020	Francheska Castillo	WT-2465	127	General
August 21, 2019	Sistema de Retiro de Puerto Rico	WT-2090	82	General
			$45,144	

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to verify and certify documents for payment.

2. During our test, we observed the invoice was not included in the disbursement voucher, in the following:

Date	Supplier	Check Number	Amount	Fund
December 11, 2019	Ferretería René	220	$10,600	Special
November 27, 2019	United Motorcycle & Auto Sales	14648	6,900	General
September 10, 2019	Ferretería San José	13862	4,900	General
February 21, 2020	Roger Electric	15460	335	General
			$22,735	

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Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 15, the Finance Director will not approve payments that are not accompanied by an invoice duly signed and certified by the creditor that had provided the services or served the supplies.

3. We observed the invoice included in the disbursement voucher did not was stamped as paid, in the following:

Date	Supplier	Check Number	Amount	Fund
February 26, 2020	Director de Finanzas	1527	$ 52,753	Child Care
May 21, 2020	Professional Pharmacy	32995	40,500	Section 8
June 12, 2020	Farmacia Marilú	33555	36,200	Section 8
September 26, 2019	Josue Refrigeration	1388	20,000	Child Care
September 11, 2019	The Phoenix Company, Inc.	27302	15,984	Section 8
November 14, 2019	Interprice Bakery Equip.	119	13,938	Food Program
December 16, 2019	National College	1480	13,200	Child Care
May 21, 2020	Selectos de Arecibo	32994	13,176	Section 8
October 2, 2019	FLL Construcion, Inc.	1389	12,911	Child Care
June 12, 2020	H/M/G Management & Consulting	33558	11,325	Section 8
November 6, 2019	Moreda Caban Investment Corp.	23593	11,200	Section 8
March 4, 2020	Moreda Caban Investment Corp.	25169	11,200	Section 8
June 12, 2020	Moreda Caban Investment Corp.	27147	11,200	Section 8
February 13, 2020	MRI Software, LLC	31198	11,152	Section 8
October 10, 2019	FLL Construcion, Inc.	1400	11,034	Child Care
November 14, 2019	FLL Construcion, Inc.	1465	10,256	Child Care
March 10, 2020	The Phoenix Company, Inc.	31790	10,125	Section 8
January 17, 2020	The Phoenix Company, Inc.	30603	9,264	Section 8
September 26, 2019	Y & C Services Distributors	113	7,328	Food Program
October 28, 2019	Secretario de Hacienda	WT-2251	6,236	General
August 19, 2019	National College	1363	4,800	Child Care
May 21, 2020	Walmart Store	32993	3,265	Section 8
September 20, 2019	Municipio de Arecibo	1376	3,179	Child Care
October 18, 2019	International Medical	1418	2,745	Child Care
June 23, 2020	SOPR	33570	2,696	Section 8
October 18, 2019	Municipio de Arecibo	1415	2,645	Child Care
July 26, 2019	International Medical	1337	2,606	Child Care
October 25, 2019	Pachos Catering	28835	2,580	Section 8

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Date	Supplier	Check Number	Amount	Fund
August 23, 2019	International Medical	1369	$ 2,481	Child Care
September 20, 2019	International Medical	1379	2,481	Child Care
May 21, 2020	Walmart - Barceloneta	32996	1,573	Section 8
February 10, 2020	Inter Office Supplies, Inc.	31192	1,481	Section 8
January 28, 2020	Torcos, Inc.	30624	1,380	Section 8
June 12, 2020	Y & C Services Distributors	33556	1,352	Section 8
June 5, 2020	Arasibo Steak House	33553	1,137	Section 8
June 5, 2020	Specialty Office Product	33242	1,007	Section 8
May 27, 2020	ABC Medical	16092	588	General
			$ 366,978	

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 15, after the payment is made, the invoice should be signed or stamped by paid, to avoid duplicity.

4. We observed that the disbursement voucher did not include supporting documentation, in the following:

Date	Supplier	Check Number	Amount	Fund
April 17, 2020	Municipio de Arecibo	15798	$ 55,835	General
April 29, 2020	Camuy Truck Parts, Inc.	15893	9,600	General
April 3, 2020	Emanuel Padilla Rivera	WT-2631	580	General
April 3, 2020	Jaime Vélez Gómez	WT-2629	580	General
April 17, 2020	Jaime Vélez Gómez	WT-2644	457	General
March 16, 2020	Juan R. Ramírez Álvarez	WT-2590	378	General
September 18, 2019	Juan Díaz Pérez	WT-2125	378	General
April 17, 2020	Juan R. Ramírez Álvarez	WT-2643	348	General
March 16, 2020	María L. Rivera Valle	WT-2608	238	General
			$ 68,394	

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to verify and certify documents for payment.

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5. During out test, we observed the three quotations required did not was included in some disbursement vouchers, those are:

Date	Supplier	Check Number	Amount	Fund
September 26, 2019	Josué Refrigeration	1388	$20,000	Child Care
June 8, 2020	Camuy Truck Parts	16152	193	General
			$20,193	

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to verify and certify documents for payment.

6. During our test, we observed some disbursement vouchers that the required purchase order was made after the invoice, those are:

Date	Supplier	Check Number	Amount	Fund
October 7, 2019	Constructora SK, Inc.	WT-2682	$ 21,625	CDBG
June 19, 2020	Professional Pharmacy	16296	21,000	General
October 10, 2019	FLL Construction, Inc.	1400	11,034	Child Care
May 29, 2020	Professional Pharmacy	3000	10,500	CDBG
			$ 64,159	

Recommendation

Based on the Regulation for the Municipal Administration, Chapter IV, Section 1, the Finance Director is responsible to make the payment; as a control procedure, the disbursement documents should be complete.

D. HUMAN RESOURCES

We observed, during our test, two of forty employee files sample did not include the appointment and swearing-in form according to the salary paid.

Recommendation

The employee files should be documented with updated forms according to correct and actual information.

E. CONTRACT TEST

During our contract test, we observed some contracts 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
2020-000072	June 26, 2019	July 19, 2019	8
2020-000474	October 28, 2019	November 22, 2019	10
2020-000837	January 21, 2020	February 24, 2020	19
2020-000960	March 3, 2020	June 11, 2020	85
2020-001005	March 5, 2020	June 15, 2020	87
2020-001173	June 16, 2020	October 2, 2020	93
2020-000001	July 5, 2019	July 24, 2019	4
2020-000002	July 1, 2019	July 24, 2019	8
2020-000060	July 8, 2019	July 30, 2019	7
2020-000061	July 8, 2019	July 30, 2019	7
2020-000073	July 1, 2019	August 6, 2019	21
2020-000477	October 28, 2019	November 22, 2019	10
2020-000291	August 27, 2019	September 19, 2019	8
2020-000518	October 1, 2019	November 26, 2019	41
2020-000523	October 30, 2019	November 26, 2019	12
2020-000890	January 24, 2020	June 5, 2020	118
2020-000882	February 3, 2020	June 4, 2020	107

Recommendation

The Municipality should be aware of the requirements of submission on time of the signed contract.

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