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 10, 2023

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

In connection with our audit of the basic financial statements of the **Municipality of Arroyo** as of and for the year ended June 30, 2022, 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 **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 10, 2023 contains our report on significant deficiencies in the Municipality's internal control structure, and separate report dated March 31, 2023 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 10, 2023 on the financial statements as of and for the year ended June 30, 2022.

We hope to provide our services to 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

I. Financial Matters

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

Our test of twenty-five (25) employee files revealed the following:

Deviation	Cases
• Employee's file does not include the Immigration Form (I-9).	6
• Employee's file include the Immigration Form (I-9) incomplete.	15
• Employee's file does not include the W-4 form (499-R).	10
• Employee's file include the W-4 (499-R) form incomplete.	1
• Employee's file does not contain evidence of academic preparation.	6
• We were unable to verify if the employee has the appropriate remuneration.	1

Recommendation:

We recommend the Municipality improve its procedures to assure that the Human Resources Department maintains updated, correct and complete employees' files. In addition, it must have all the materials required to hire, retain, and appropriately increase the salaries of the employees.

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 examine ten (10) disbursement vouchers of the General Fund; three (3) disbursement vouchers of the Community Development Block Grant; one (1) disbursement voucher of Child Care, one (1) disbursement voucher of Joint Resolutions, four (4) disbursement vouchers of Section 8 Moderate; sixteen (16) disbursement vouchers of Federal Emergency Management Agency (FEMA); nine (9) disbursement vouchers of Insurance; four (4) disbursement vouchers of COVID-19 Contact Tracing Program; seven (7) disbursement vouchers of COVID-19 Emergency Fund, two (2) disbursement vouchers of Permanent Works and Improvements and Infrastructure; and three (3) disbursement vouchers of the American Rescue Plan Act (ARPA) for a total of sixty (60) vouchers. The following will summarize the internal control deviations noted:

B. Expenditures for Goods and Services and Accounts Payable – Purchasing (continued)

Deviation	Cases
• Original invoice does not have the disclaimer of conflict of interest.	2
• Purchase order issued after the receiving of good or services.	1
• Purchase order was not made in accordance with applicable laws and regulations.	10
• The disbursement vouchers did not include an approved purchase order.	16
• The disbursement vouchers were not charged to the correctly disbursement account.	8
• One or more documents along the disbursement vouchers were not canceled or marked as paid.	23
• There's no receiving report or certification of the Municipality's employee who has knowledge of receiving the goods or services.	5
• All the documents along the disbursement vouchers were not canceled or marked as paid.	6
• The disbursement vouchers were not fully approved by responsible officials.	8
• The disbursement vouchers did not include an approved requisition.	8
• The disbursement vouchers did not have an original invoice.	4
• Original invoice does not sign by the supplier.	1
• The purchase order was not fully approved by responsible officials.	1

B. Expenditures for Goods and Services and Accounts Payable – Purchasing (continued)

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.

C. Bids

Our test of five (5) bids files revealed the following:

Deviation	Cases
• There was no evidence in the file about the decision that the auction will not be awarded.	1
• It could not be certified that the award was made to the lowest bidder because there is no evidence of the bidding documents submitted by the bidders. Bidding documents were submitted through a web page and no evidence of the documents submitted by the bidders was printed or kept.	1
• Bids amounts were recovered from award/non-award letters because there is no evidence of the bids submitted by the bidders.	2
• There is no evidence of the State Insurance Fund Corporation policy related to the project.	1

Recommendation:

We recommend that the Municipality establishes a centralized bid file where all the required documentation can be found. The Bid Board should not proceed with the adjudication of the contract without having evidence of all the required documents from the bidders in the bid file. The Bid Board must be certain that the bidders deliver the State Insurance Fund Corporation policy related to the project before the agreement is made.