López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

April 17, 2015

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

In connection with our audit of the basic financial statements of the **Municipality of Ponce** as of and for the year ended June 30, 2014, 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 tests over the **Municipality of Ponce'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 on 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 SAS 112 *"Communicating Internal Control Related Matters Identified in an Audit".* A separate report dated April 17, 2015 contains our report on significant deficiencies in the Municipality's internal control structure, and a separate report dated April 17, 2015 contains 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 April 17, 2015 on the financial statements as of and for the year ended June 30, 2014.

We will hope to provide our services for the next fiscal year's audit. Thank you for your trust in our Firm.

Very truly yours,

Ángel Alfredo López Vega
President
López-Vega, CPA, PSC

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

I. Financial Matters

A. Expenditures for Goods and Services and Account Payables – Purchasing and Receiving

During our examination of the Municipality's procedures related to the purchasing and receiving processes, we examined fifty-one (51) disbursement vouchers pertaining to the General Fund. The following will summarize the internal control exceptions:

Deviation	Cases
The disbursement voucher was not marked as paid.	49
The disbursement voucher indicates that the supplier was selected based on the lowest quote; however, there was no evidence of the three quotes required by law.	2

Recommendation:

We recommend the Municipality improves its internal control procedures in order to ensure that the disbursement vouchers are documented as required by regulation.

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

Our test of thirty (30) employee's files revealed the following:

Deviation	Cases
The regular vacations hours per the Compensated Absences Cards did not agree with the regular vacations hours reported in the Accrued Compensated Absences Detail prepared by the Municipality.	2
We did not find evidence of the employee's personal information in the employee's file. Also, we did not find the updated report that states the employee's actual salary and position.	1

Recommendation:

We recommend the Municipality reviews the personnel files to ensure completeness of the required documentation and performs periodically follow-up procedures in order to update such files. Also, we recommend that the Human Resources Department reviews the License Record Detail to correct any discrepancies.

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April 17, 2015

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

In connection with our audit of compliance of the **Municipality of Ponce** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each major federal programs for the year ended June 30, 2014 as identified in the summary of auditors' results section of the schedule of findings and questioned costs, we considered the **Municipality of Ponce's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As a result of our evaluation, we noted certain immaterial matters involving the internal control over compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each major federal programs for the year ended June 30, 2014, as identified in the summary of auditors' results section of the schedule of findings and questioned costs, where procedures should be improved and administrative controls strengthened. This letter summarizes our comments and suggestions. These comments are not significant enough to be considered significant deficiencies as defined by SAS 117 "Compliance Audit'". A separate report dated April 17, 2015 contains our report on compliance with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and our report on internal control over such compliance requirements. This letter does not affect our report dated April 17, 2015 on the financial statements as of and for the year ended June 30, 2014.

We hope to provide our services for the next fiscal year's audit. Thank you for your trust in our Firm.

Very truly yours,

Ángel Alfredo López Vega
President

López-Vega, CPA, PSC

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II. Compliance Matters

A. Cash Disbursements Test (Dual Purpose Test)

We performed a cash disbursement test and examined thirty (30) payments, which included six (6) disbursements of the Community Development Block Grant-Entitlement Program (CFDA 14.218) and twenty four (24) of the Head Start Program (CFDA 93.600). The following will summarize the internal control exceptions noted:

CFDA No.	Deviation	Cases
14.218	The disbursement voucher was not marked as paid.	6
93.600	The disbursement voucher did not have the pre-intervention date.	23
93.600	The check was issued before it was signed by the Mayor or his authorized representative.	1

Recommendation:

We recommend the Municipality improves its internal control methods and procedures in order to ensure that all disbursement vouchers contain all supporting documents and are duly completed before making the payment.

B. Cash Management

Our test of four (4) cash advances or requisitions from the Community Development Block Grants – Entitlement Program (CFDA 14.218) and fifthty-three (53) of the Ryan White (CFDA 93.914) and sixty-one (61) of the Head Start Program (CFDA 93.600) revealed the following:

CFDA No.	Deviation	Cases
14.218	The time elapsed between the deposit of the requisition and the disbursement exceeded the time required by the program: disbursements were made between fourteen (14) to three hundred and eighty-three (383) days after the deposit.	4
93.914	The time elapsed between the deposit of the requisition and the disbursement exceeded the time required by the program: disbursements were made between ten (10) to sixthy-three (63) days after the deposit.	59
93.600	The time elapsed between the deposit of the requisition and the disbursement exceeded the time required by the Program: disbursements were made between four (4) to ten (10) days after the deposit.	53

Recommendation:

We recommend Management to strengthen its controls and procedures in order to ensure that the disbursements will be made during the time period required by laws and regulations.

B. Cash Management (continued)

Our test of monthly average cash balance of the WIA Program CFDA. 17.258, 17.259 & 17.278 reveal a high negative reconciled balance for the two (2) first months of the year. This situation was due to not sufficient funds checks issued by the Municipality for the amount of $340,119 in reimbursement to the ADL for the excess of funds requested in relation to the prior year operations. The insufficiency of funds corresponds to the noncompliance of the Municipality with the prior year assigned cash contribution. The Municipality agreed a cash contribution to the WIA Program for the fiscal year 2012-2013, and it was not transferred to the WIA program account until fiscal year 2013-2014.

Recommendation:

We recommend that, if in the future it is foreseen that the Municipality is going to make or will make an cash contribution to the WIA Program, a procedure should be established on how the cash contribution is going to be carried out in a way that ensures the dates and the petitions will be correctly established to avoid these high balances problems in the cash account and that the Program can set for a better plan and comply with the Cash Management requirement.

C. Reporting

Our reporting test over the Community Development Block Grants –Entitlement Program (CFDA 14.218) revealed the following:

Deviation	Cases
Differences between the amounts presented in the Financial Quarterly Report and the amounts registered in the Program's General Ledger.	4
Quarterly report was submitted after its due date.	2

Recommendation:

We recommend Management improves the Program's internal control procedures in order to prepare accurate and complete reports as required by regulation.

D. Eligibility

We performed an eligibility test over forty (40) participant files of the Head Start and Early Head Start Programs (CFDA 93.600) and identified the following.

Deviation	Cases
There are inconsistencies between the participant file and the supporting documents.	9
The file was not made available to us for examination.	1
For a second-year participant, we did not find the first-year documentation.	1
We identified participants of special needs who are not identified as such in the control list.	1

Recommendation:

We recommend the Program's Management establishes, as an internal control mechanism, a monitoring process of the files and the supporting documentation to ensure that the eligibility process was made in a more precise manner and to ensure that the participant files contain all required documentation.

E. Equipment and Real Property Management

Our test of the Equipment and Real Property Management compliance requirement revealed the following:

CFDA No.	Deviation	Cases
93.600 Head Start	Vehicles were not included in the Property Ledger.	2

Recommendation:

We recommend Management reviews periodically the property ledger and compares it with the inventories reports to ensure that all the property acquired by the Head Start Program will be registered in such ledger.

F. Special Tests and Provisions - Housing Assistance Payments & Waiting List – Section 8 Housing Choice Voucher Program (CFDA 14.871)

The PHA does not maintain procedures of quality control for the HAP registry.

Recommendation:

It is recommended to include in the Administrative Plan these procedures of quality control for the maintenance of the HAP registry; this will lead to the compliance of this requirement.

G. Special Tests and Provisions - HQS Enforcement Section 8 Housing Choice Voucher Program (CFDA 14.871)

As part of our audit procedures performed over the Section 8 Program, we verified the compliance with the requirement HQS Enforcement and found the following deviations:

Deviation	Cases
The result of the inspection was not indicated in the inspection report.	2

Recommendation:

We recommend the personnel in charge of the re-inspections details the results in the designed space of the inspection report so everyone can be certain of which is the result and corroborate if the corresponding action was taken.

G. Payroll and Employee Files

As part of our payroll test over employee files, we examined the files of twelve (12) employees of the WIA Program (CFDA 17.258, 17.259 & 17.278) and identified the following deviations:

CFDA No.	Deviation	Cases
17.258 17.259 17.278	We did not find the W499 Form in the file.	2

Recommendation:

We recommend the Human Resources Department conducts a review of all of the employee files to ensure that all required documentation by laws and regulations was included.

H. Procurement and Suspension and Debarment

In our audit of the contract procurement process of the WIA (CFDA 17.258, 17.259 & 17.278) we found the following deviations:

CFDA No.	Deviation	Cases
17.258 17.259 17.278	Although the amount of hours is available, the maximum total hours to be incurred is not presented clearly in the contract terms.	6
17.258 17.259 17.278	Evaluations of the facilities were done after the evaluation of the proposal.	1
17.258 17.259 17.278	There is no evidence of the registry of the contract in the Puerto Rico Comptroller Office.	4

Recommendation:

We recommend the designated personnel of the procurement process improves its internal control methods and procedures in order to ensure that the information presented in the contracts is complete and clear and the proposal evaluations were celebrated in a reasonable order. Also, we recommend registering all the contracts in the Puerto Rico Comptroller Office within fifteen (15) days of their signing as required by law.

I. Matching, Level of Effort and Earmarking

In our review of the supporting documentation related to the in-kind and cash contributions required to comply with the matching requirement of the Head Start Program (CFDA 93.600), we found differences in the amounts presented in the In-Kind Report prepared by the Program personnel versus the amounts presented in the supporting documents. The differences that were found did not affect the percentage of matching required.

Recommendation:

We recommend the Program strengthens its internal controls procedures to ensure an accurate review of the supporting documentation of the in-kind contributions to obtain precise and complete expense matching information. It is very important to pay special attention to this requirement because an error in the verification of the supporting documentation may lead to the Program's non-compliance with federal requirements.