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 30, 2015

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

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

We will hope to provide our services 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

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 process, we examined thirty-four (34) disbursement vouchers which fifty-nine (19) belonged to General Fund, five (5) disbursement vouchers which belonged to Community Development Block Grant-Entitlement Program, four (4) disbursement vouchers which belonged to "Asignaciones Legislativas" and six (6) disbursement vouchers which belonged to Special Revenue Funds. The following will summarize the internal control exceptions noted:

| Deviation | Cases |
|---|---|
| The requisition was not included along the documents in the disbursement voucher file. | 1 |
| The certification of receiving of the goods or services made by the Municipality's employee was not included in the disbursement voucher file. | 1 |
| The purchase order was not made in accordance with applicable laws ( at least three quotations for goods or services that do not exceed $80,000 during the fiscal year or at least three quotations for construction projects) | 6 |

Recommendation:

We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment and are issued according to the applicable laws and regulations.

### B. Payroll and Related Liabilities – Payroll Preparation and Timekeeping

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

| Deviation | |
|---|---|
| The Form I-9 was not signed by the employee. | 3 |
| The gross wage rate per payroll agrees do not agree with the gross wage rate included in the employee's file. | 2 |
| We could not verify the compensated absents balances because the format in which they register. | - |

Recommendation:

We recommend that the Municipality should review the personnel's files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files. Also, we recommend that the Human Resources Department should review the License Record schedule to correct any discrepancy.

## C. Cash Receipts

Our test of thirty (30) cash receipts files revealed the following:

| Deviation | Cases |
|---|---|
| The Municipality did not perform the calculations correctly. | 3 |

Recommendation:

We recommend that the Municipality should improve its internal control and procedures in order to assure that the cash receipts and revenue register procedures are calculated correctly and documented as established by regulation.

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March 30, 2015

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

In connection with our audit of compliance of the Municipality of Rio Grande 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 Rio Grande'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, 201, 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 112 "Communicating Internal Control Related Matters Identified in an Audit". A separate report dated February 6, 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 February 6, 2015 on the financial statements as of and for the year ended June 30, 2014.

We will hope to provide our services 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

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## I. Compliance Matters

### A. Special test-Waiting List

Our test from the Section 8 Housing Choice Vouchers Program U.S. Department of Housing and Urban Development, revealed the following:

| CFDA No. | Deviation |
|---|---|
| 14.871 | We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2013-2014 since it is a waiting list of date over 10 years. |

Recommendation:

We recommend to the Municipality's Management improve its procedures in order to ensure that the Program maintains a complete and accurate waiting list and that the updating process of the waiting list will be in accordance with the Municipality's Section 8 Administrative Plan and explanations are given when an applicant is removed from the list or skipped.