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

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

February 15, 2015

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

In connection with our audit of compliance of the Municipality of Vega Baja 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 program 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 Vega Baja'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 program 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 112 "Communicating Internal Control Related Matters Identified in an Audit". A separate report dated January 31, 2015 contains our report on compliance with the types of compliance requirements described in the U.S. 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 January 31, 2015 on the financial statements as of and for the year ended June 30, 2014.

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

Very truly yours,

Angel Alfredo López Vega
President

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II. Compliance Matters

A. Cash Management

Our tests over cash management revealed the following exceptions:

CFDA Number	Program	Deviation	Cases
10.558	Child and Adult Care Food Program	The cash balance per month exceeded $100,000, which is excessive based on the cash management requirements of the program. The average monthly cash balance amounted to $110,963.	8
20.509	Formula Grants for Rural Areas	The time elapsed between the deposit of the request for funds and the actual disbursements exceeded the time required by the program.	1
93.575	Child Care Development Block Grant	The adjusted bank cash balance per reconciliation reflected an overdraft.	1
93.600	Head Start	There is no matching between the monthly requests for funds based on expenditure projections and the actual disbursements incurred, increasing the possibility of excess cash or a bank overdraft in a particular month.	7

Recommendation:

We recommend management to strengthen its internal control procedures in order to ensure that the requests for funds are in line with the cash management needs of each program and there is a proper matching between expenditure projections and actual disbursements. Also, management should improve its disbursements procedures in order to comply with the time requirements established by the related regulations to avoid excess cash balances.

B. Reporting

Our tests over the reporting requirements of the Head Start revealed the following exceptions:

Deviation	Cases
The monthly request for funds was submitted after the due date required by the pass-through agency.	2

Recommendation:

We recommend management to strengthen its internal control procedures in order to ensure that the monthly requests for funds are submitted on time per the pass-through agency's requirements.

C. Other matters

During our audit procedures, we detected that the U.S. Department of Housing and Urban Development (HUD) notified the Municipality in an electronic communication sent on March 2014 of its noncompliance with various contract security documents requirements, including the issuance of a mortgage in the name of HUD, of the following Section 108 Loan Guarantee notes payable:

- Note No. B-94-MC-72-0014 Public facilities & Housing Rehabilitation Project $6,455,000
- Note No. B-98-MC-72-0014 Casa Portela Museum/Recreation Areas Project $2,370,000
- Note No. B-01-MC-72-0014 Public Improvements & Facilities Reconstruction Project $3,200,000

We recommend the Municipality to comply with the contract security documents requirements as soon as possible to avoid possible sanctions against the Section 108 Loan Guarantee and CDBG Entitlement programs that could affect the Municipality's ability to request borrowings under these programs.