GONZÁLEZ TORRES & CO., PSC
Certified Public Accountants and Consultants
Members of: AICPA, PR Society of CPA and Association of Certified Fraud Examiners

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CAROLINA

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2015

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February 8, 2016

Hon. Jose C. Aponte Dalmau and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Carolina
Carolina, Puerto Rico

In planning and performing our audit of the financial statements of the Municipality of Carolina as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Municipality's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies on internal controls. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal controls.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal controls.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies on internal controls that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations on internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

In our review of Human Resources procedures and documentation, some deficiencies were found in the evaluation of the required documentation for hiring employees. The purpose of this test was to evaluate that employees' files contained the documentation established by Local and Federal laws and regulations. Also, the evaluation presented that employees' files were segregated for some programs and departments and were in the custody of those departments. This created some inconsistencies in the documentation between the employees' files.

The review consisted of 40 employees selected randomly from the total active employees as of June 30, 2015 and the conditions observed are distributed as follows:

FINDING NO. 1

Condition: At the time of the examination the following documents were not available in the employees' files documentation.

Criteria	Number of cases not available at the time of the examination
Employment Application	2
Birth Certificate	2
Social Security Verification	13
Employment Eligibility Verification I-9	3
Employee Registration (ASUME Form ASM-5)	14

Criteria: The Law for the Administration of Human Resources in the Public Service **(Law No. 184, August 3, 2004)**, states in **Section 6.3 – Recruitment and Selection Disposition,** that the process of recruitment should be in equal conditions for all applicants **(refer to the Law No. 184 for more details)**. During this process, the Municipality should inform to applicants the position available, requirements for that position, description, minimum experience, education achievement, salary, and among others. The employment application is an initial document to identify prospects for the area or position that the Municipality needs to improve with the recruitment of the new prospect. This document helps to identify the best prospect for the Municipality and if that prospect fulfill the minimum requirements for the position.

The Law for the Administration of Human Resources in the Public Service **(Law No. 184, August 3, 2004)**, states in **Section 6.3 – Recruitment and Selection Dispositions** that Agencies (this including Municipalities as defined in the Article 3 of this law

"agency") that all prospects interested in joining the public service need to be American citizen or an alien person legally authorized to work in accordance with the applicable legislation. The birth certificate and the social security are official evidence to determine if the prospect is an American citizen.

The Form I-9 Instruction for Employment Eligibility Verification states that employers must complete this form to document the verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986, to work in the United States. Also, this document states that employers are responsible for completing and retaining Form I-9. For the purpose of completing this form, the term "employer" means all employers, including those recruiters and referrers for a fee who are agricultural associations, agricultural employers, or farm labor contractors.

The Personal Responsibility and Work Opportunity Reconciliation Act 1996 requires Puerto Rico to have a registry of all new employees as of October 1, 1997. The Administration of Child Support Enforcement (ASUME) is the official governmental organization that manages the employee register. All employers must submit the required information of new employees to the State New Hire Register (RENE) within twenty (20) days of recruitment, using the ASM-5 form (New Hire Report) provided by ASUME.

Effect:

The Municipality must submit the required information of new employees to the State New Hire Register (RENE) within twenty (20) days of recruitment, using the ASM-5 form (New Hire Report) provided by ASUME. If the Municipality do not register the new employees incurs in a violation of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

The Municipality's management may be fined if the Form I-9 is not completed. A violation of the requisites mentioned in the criteria could result in civil fines by the amounts not below to $110 and not above to $1,100 for each infraction. The Municipality could incur in a violation of the Immigration and Nationality Act.

Also, the conditions related to the employment application, birth certificate and social security verification in file documentation, provoke a violation to Law No. 184.

Cause: A deficiency in the maintenance of employees' files and/or, lack of knowledge of laws and regulations and/or, personnel of the Municipality do not review the instructions of the documents to be filled by personnel of the Municipality and distributed by them to the new employees.

Recommendation: We recommend to the Municipality's management to document the verification of the original birth certificate and social security card and prepare a certification to be sign and dated by an employee of the Municipality. This certification should be attached to the employees' file.

Also, we recommend to the Municipality's management to review with the checklist included in employees' files that the required documentation to complete the file, in accordance with the local and federal laws and regulations, were provided and attached to the file at the first day of work of the employee.

FINDING NO. 2

Condition: As part of our evaluation we observed that seven (7) Employment Eligibility Verification Forms (I-9 Form) that were available at the time of our evaluation, were completed incorrectly. The I-9 should include the hiring date of the employee but some I-9 Form did not include this information and other I-9 Forms are not completed in accordance with the instructions, for example, the document to complete the List A of Section of the I-9 Form was used to complete the List B. In other cases, the I-9, was only completed by a document of List B but did not include the document related to List C. Please refer to the I-9 Form instructions for more details.

Criteria: The Form I-9 Instruction for Employment Eligibility Verification states that employers must complete this form to document the verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986, to work in the United States. Also, this document states that employers are responsible for completing and retaining Form I-9. For the purpose of completing this form, the term "employer" means all employers, including those recruiters and referrers for a fee who are agricultural associations, agricultural employers, or farm labor contractors. Also, the **Employer's Manual: Guide to complete the**

I-9 Form in part four states that the I-9 should be completed correctly, retain by employer and available for examination.

Effect: The Municipality's management may be fined if the Form I-9 is not completed correctly. Also, a violation of the requisites mentioned in the criteria could result in civil fines by the amounts not below to $110 and not above to $1,100 for each infraction. The Municipality could incur in a violation of the Immigration and Nationality Act.

Cause: A deficiency in the maintenance of employees' files and/or, lack of knowledge of laws and regulations and/or, personnel of the Municipality do not review the instructions of the documents to be filled by personnel of the Municipality and distributed by them to the new employees.

Recommendation: Also, we recommend to the Municipality's management to review with the checklist included in employees' files that the required documentation to complete the file, in accordance with the local and federal laws and regulations, were provided and attached to the file at the first day of work of the employee.

In our review of disbursements vouchers procedures and documentation, some deficiencies were found in the evaluation of the required documentation for paying a supplier. The purpose of this test was to evaluate that disbursements to suppliers were in accordance with the Local and Federal laws and regulations.

FINDING NO. 3

Condition: In 1 of 157 disbursements vouchers evaluated, the disbursement was registered to an incorrect expense account. The expense account accrued was the 93.02 "Computer Programs". The correct account to be accrued was the 94.11 "Professional Services", therefore the Municipality had to withhold the 7% of professional services as describe in the Internal Revenue Code of Puerto Rico.

Criteria: Internal control deficiencies because the Municipality did not withhold the 7% of professional services as established in the proposal in phase 3 and phase 4.

Internal Revenue Code of Puerto Rico Section 1062.03.

Effect: The incorrect accrued expense represents an overstatement of fixed assets account and depreciation expense account. Also, the budgeted amounts for the acquisition of equipment and for professional service payments could represent a negative variance at the end of the year or the management of the Municipality decide not to obligate funds to these accounts because the available funds established are incorrectly used. Also, the Municipality could incur in a violation of the Internal Revenue Code of Puerto Rico Section 1062.03.

Cause: A deficiency in the pre-intervention procedures.

Recommendation: The pre-intervention procedures should be performed carefully and for proposals that include different phases, review the type of service received in accordance with the proposal or contract to accrue the expense amount to a correct account and in cases of professional services, perform the necessary withholding as established in the Internal Revenue Code of Puerto Rico.

FINDING NO. 4

Condition: In 1 of 157 disbursements vouchers evaluated, the search performed by the Municipality in the System for Award Management (SAM) was incorrect. The System for Award Management (SAM) is a Federal Government owned and operated free web site that consolidates the capabilities in Central Contractor Registration (CCR)/FedReg, Online Representations and Certifications Applications (ORCA) and the Excluded Parties List System (EPLS). The Municipality performed a disbursement to a Carolina's citizen named Roberto Gonzalez Andino for the acquisition of property but the Municipality made the search in SAM by the name of Roberto Gonzalez Melendez.

Criteria: 2 CFR part 180, Subpart C – Responsibilities of Participants Regarding Transactions Doing Business with Other Persons.

Effect: The Municipality could have made a disbursement to an excluded person because the name for the search was incorrect and the Municipality could enter in a violation of the 2 CFR part 180, Subpart C – Responsibilities of Participants Regarding Transactions Doing Business with Other Persons.

Cause: A deficiency in the pre-intervention procedures.

Recommendation: The pre-intervention procedures should be performed carefully to validate that the search in the SAM system is accurate.

FINDING NO. 5

Condition: In 1 of 157 disbursements vouchers evaluated, the Municipality made a disbursement to a supplier with the 3% of income tax withholding for professional services provided by the supplier but the supplier provided to the Municipality the total exemption certificate.

Criteria: Internal control deficiency. The Department of Treasury of Puerto Rico, grants exemptions based on its Internal Revenue Code.

Effect: Noncompliance with the Department of Treasury of Puerto Rico.

Cause: A deficiency in the pre-intervention procedures.

Recommendation: The pre-intervention procedures should be performed carefully to validate that the amount retained to the suppliers are in accordance with the documentation available.

CURRENT YEAR MANAGEMENT LETTER COMMENTS

See the action correction plan for details.

This communication is intended solely for the information and use of management, members of the Municipal Legislature and the Mayor of the Commonwealth of Puerto Rico Municipality of Carolina, and is not intended to be and should not be used by anyone other than these specified parties.

We thank all the Municipality's personnel that worked with us throughout the single audit for their cooperation and assistance.

Sincerely,

GONZALEZ TORRES & CO., CPA, PSC