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 4, 2016

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, 2015, 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 March 4, 2016 contains our report on significant deficiencies in the Municipality's internal control structure, and a separate report dated March 4, 2016 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 March 4, 2016 on the financial statements as of and for the year ended June 30, 2015.

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-two (52) 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.	11
The disbursement voucher is not available in the single audit.	8

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 forty (40) employee's files revealed the following:

Deviation	Cases
We did not find evidence the updated report that states the employee's actual salary and position.	17

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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March 4, 2016

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, 2015 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, 2015, 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 March 4, 2016 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 March 4, 2016 on the financial statements as of and for the year ended June 30, 2015.

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 forty (40) payments, which included nine (9) disbursements of the Community Development Block Grant-Entitlement Program (CFDA 14.218) , eleven (11) of the Home Partnership Program (CFDA 14.228) and sixteen (16) of the Head Start Program (CFDA 93.600). The following will summarize the internal control exceptions noted:

CFDA No.	Deviation	Cases
14.218 14.228	The disbursement voucher was not marked as paid.	17
14.228 93.600	The purchase order did not have the sign of the Finance Director.	8
14.228 93.600	The purchase order was signed by the Secretary Finance Director.	16
93.600	The disbursement voucher had only 2 quotations.	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 one (1) cash advances or requisitions from the Child and Adult Care Food Program (CFDA 10.558) and six (6) requisitions of Community Development Block Grant-Entitlement Program (CFDA 14.218) revealed the following:

	Deviation	Cases
10.558	The reimbursement was deposited in a wrong account. The check amount is $ 113,376.70.	1
14.218	The request was not signed by the Head Start Director.	1
14.218	The check was realized before the request was deposited in the bank.	5
14.218	The time elapsed between the deposit of the requisition and the disbursement exceeded the time required by the program: disbursements were made ten (10) days after the deposit.	1

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.	3

Recommendation:

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

D. 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	The certificate property report does not include the corresponding signatures of the Property Manager and Finance Director.	20

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.

E. 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.

F. 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	Evaluations of the facilities were done after the evaluation of the proposal.	1

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.

G. Payroll and Employee Files

As part of our payroll test over employee files, we examined the files of fifteen (15) 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 evidence the updated report that states the employee's actual salary and position	15

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.