MUNICIPALITY OF BAYAMÓN

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2015

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

ORR & Co.
Ortiz, Rivera, Rivera & Co.
Certified Public Accountants and Business Advisors

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Zoralda Cruz Claudio

Members:
American Institute of Certified Public Accountants (AICPA)
AICPA's Private Companies Practice Section (PCPS)
Puerto Rico Board of Certified Public Accountants

February 12, 2016

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

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Bayamón 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 Municipality of Bayamón internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report date February 12, 2016 on the financial statements of the Municipality of Bayamón. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

Our comments are summarized as follows:

- Cash
- Inventory
- Property and Equipment
- Expenditures
- Municipal Licenses
- Construction Excise

Cordially,

Ortiz, Rivera, Rivera & Co.

Ortiz, Rivera, Rivera & Co.

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

I. CASH

The Municipality maintained bank accounts inactive during the fiscal year 2014-2015. Those are:

Account Name	Account Number
DEA	052-980693
Homeless CSBG	052-225542
Donativo Legislativo	052-236277
Proyecto Impacto	052-372294
Programa SNAPS	052-373533
Alianza y Refugio	052-425193
Recreación y Deportes	052-959767
Empréstito $8,110,000	72-0151-01-8
PINI	052-871762
C.S.B.G. ARRA	052-876187
Estrella del Norte	052-880265
Conv. Carr Bay. 2013	052-974723
N.S.P 3	052-984133
Fideicomiso Comunidades Esp	052-973255
Loan Repayments Account	31-5002054
Guarantee Loan Fund Acc	31-05002076
Empréstito $8,040,000	3105002384
Empréstito $2,315,000	3105002395
Empréstito $10,540,000	300011-430-001-007-05
Empréstito $18,790	300011-430-001-007-3
Empréstito $10,050,000	300011-430-001-520-04
Fondo Repav. Fase 11 Nar/Bay	25489467
Empréstito $12,060,000	30011-430-001-510-03
Empréstito $10,670	300011-430-001-002-02
Empréstito AEE $11,195,000	30001143000100209
Empréstito $8,370,000	300011-430-001-520-02
Empréstito $9,045,000	300011-430-001-520-01
Empréstito $9,580	300011-430-001-002-08
Empréstito $11,240,000	300011-430-001-02-12
Empréstito $7,030	300011-430-001-002-07

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8324, Fax (787) 274-0562

Account Name	Account Number
Empréstito $1,410	300011-430-001-002-06
Empréstito $21,425,000	300011-430-001-528-06
Empréstito $4,825,000	300011-430-001-520-08
Empréstito $1,440,000	300011-430-001-527-04
Empréstito AEE $3,747,458.67	300011-430-001-006-01
Empréstito $325,000	300011-430-001-520-03
Empréstito $6,030	300011-430-001-007-02
Empréstito $2,515	300011-430-001-007-04

Recommendation

The Finance Department should close the inactive bank accounts in order to avoid this situation.

II. INVENTORY

During our audit procedures we noted that the Municipality of Bayamón do not keep current, accurate records of inventory. The Municipality should perform an inventory count once a year and update the units on hand and cost of the items. This procedure provides an up-to-date listing of on-hand inventory, as well as tighter control over assets. The purpose of the physical inventory is to determine the actual quantity of inventory on hand at any given point in time.

Recommendation

According to the Municipal Administration Regulation the Municipality (Chapter VII, Section 25, b, h-5) should maintain a perpetual inventory record that controls the materials received and shipped in custody. An annual physical inventory of all materials remain in the warehouse should be performed and checked against the perpetual inventory card holder. Any difference should be investigated.

We suggest management consider annual inventory counts to better ensure the accuracy of amounts reported in the financial statements as well as better safeguarding its inventory from potential loss. We further suggest that the Municipality of Bayamón consider an inventory system that would track all pertinent information in such a way that returns, damaged items, sales, and purchases would be accounted for on a more current basis. This would benefit the Municipality of Bayamón by providing an up-to-date listing of on hand publication, and enhanced control of the assets. Also, management's decision-making ability will be improved and timelier.

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

IV. PROPERTY AND EQUIPMENT

At the present time, fixed asset records are not maintained appropriately by the Municipality.

Recommendation

According to the Municipal Administration Regulation (Sections 3, 15, and 23 of Chapter VII) each municipality must maintain a proper control of property through periodic physical inventories and shall maintain adequate records that demonstrate the performance of the equipment on hand.

We recommend that the Municipality maintain detailed fixed asset records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets.

Better assessment and evaluation could also be made regarding the reliability of certain fixed assets and the need for replacements, etc.

IV. EXPENDITURES

Some of the disbursements vouchers were not available for our procedures.

Date	Supplier	Voucher Number	Amount
12-Sep-2014	Comprobante de Jornal	1500628	$ 269.91
14-Oct-2014	Comprobante de Jornal	1500932	633.22
01-Dec-2014	Comprobante de Jornal	1501422	2,308.74
13-Jan-2015	Comprobante de Jornal	1501826	4,954.32
28-Jan-2015	Comprobante de Jornal	1502005	641.90
08-May-2015	Comprobante de Jornal	1503168	4,975.70
04-Jun-2015	Merfe Distributors	1503443	18,862.31
04-Dec-2014	MAC Painting Contractors Corp	1501474	7,306.50
13-Feb-2015	American Agencies Co. Inc	1502205	33,534.00

Recommendation

The receipts, canceled checks, and other documents that justify a payment must be filed, according to recordkeeping requirements of the Treasury Department and other audit agencies, in order to comply with the Municipal Administration Regulation established in Section 14 of Chapter IV.

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

B. The following conditions were noted:

Payment Date	Payee	Voucher Number	Amount	Condition	Fund/Program
24-Oct-2014	Secretario Del Tribunal Superior de PR	1501046	$187,500.00	2	Línea de Crédito 10,000,000
17-Jul-2014	FDDS Management & Engineering, PSC	1500126	17,000.00	1	Resoluciones Conjuntas
23-Sep-2014	CP & Associates, Inc.	1500745	11,087.20	1	Empréstito 20,161,190.00
19-Dec-2014	RJ Industrial Contractors, Corp.	1501647	53,360.86	1	Empréstito 8,000,000.00
20-Feb-2015	Technology Information Consulting Group, Inc.	1502282	290,000.00	1	Empréstito 8,000,000.00
09-Apr-2015	F&R Construction	1502762	398,907.49	1	Empréstito 7,440,000 - 2015
17-Apr-2015	CONSTRUCCIONES ROALCA S.E. Y FIRST BANK DE PR	1502856	194,046.68	1	Resoluciones Conjuntas
20-Apr-2015	F&R Construction	1502893	222,312.09	1	Empréstito 7,440,000 - 2015
27-Apr-2015	CP & Associates, Inc.	1502961	61,459.00	1	Empréstito 8,000,000.00
07-May-2015	Luis A. Terron, Inc.	1503152	12,290.60	1	Empréstito 8,090,000.00 - 2015

Legend:

1 invoice not stamped as paid
2 voucher do not have all required authorizations

Recommendation

The Finance Department should review that appropriate disbursement procedures are followed. The Municipality should ensure that the purchase orders and disbursement vouchers have all authorization signatures before the making payments, in order to comply with the Municipal Administration Regulation established in Section 2 of Chapter IV.

V. MUNICIPAL LICENSES TAX

The following conditions were noted on the municipal taxes licenses:

Date	Name	Fiscal Year	Receipt	Amount	Condition
24-Jun-15	Rigoberto Rodríguez Correa	2014-2015	20150053194	$ 35.28	1
28-Aug-14	Taller Avilés - Carlos I. Avilés González	2014-2015	20150004739	234.38	2
12-Jun-15	Skyline Caribbean Networks, Inc.	2014-2015	20150050654	1,688.29	2
20-Mar-15	3-F Air Conditioning & Contractor LLC	2015-2016	20150033934	147.48	3
29-Apr-15	Glam Construction Corp.	2015-2016	20150042949	1,516.28	3

Legend

1 Information not available
2 The income tax attached with the municipal tax is not stamped by " Departamento de Hacienda"
3 We observed only the income tax return, not the municipal license tax

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

Recommendation:

The Municipality must establish internal controls to ensure that taxpayers' records will be available for any inspection, including the required supporting documentation.

VI. CONSTRUCTION EXCISE TAX

Some of the construction excise tax were not available for our procedures:

Date	Name	Receipt	Amount
19-ago-2014	BAYAMÓN CENTER	20150003971	$ 1,800,000.00
18-dic-2014	LABORATORIO BORINQUEN	20150020162	247,000.00
06-feb-2015	NILDA GONZÁLEZ MARTINEZ	20150027280	9,628.00
02-mar-2015	THE FINISH LINE PUERTO RICO, INC.	20150030937	387,172.00
20-mar-2015	14029 BALDWIN SCHOOL ELEMENTARY	20150033743	664,590.76
27-mar-2015	PIZZA HUT DELIVERY	20150035080	80,000.00
08-jun-2015	IGLESIA ADVENTISTA-MARÍA PABÓN	20150050011	13,996.00
25-jun-2015	FAMILIA ORTIZ	20150053367	5,000.00

Recommendation

The Municipality should improve the monitoring procedures to assure that all the required documentation is included and properly safeguard.

VII. FINANCIAL REPORTS

We observed the 4A Model Report, one of the financial reports required to Municipalities, for the period ended June 30, 2015. The report includes the income and expenditures of all programs received by the Municipality. Some differences were observed when compared the income and expenditures with the accounting books of each program prepared by Programs Accountants.

Recommendation

The Finance Department should establish procedures in order to verify and assure that the accounting information maintained by the Programs Accountants is the same accounting information maintained by the Finance Department.

ORTIZ, RIVERA, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES
Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562