

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE BARRANQUITAS

AUDITORIA 2001-02

30 DE JUNIO DE 2002

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SINGLE AUDIT REPORT
Year ended June 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF BARRANQUITAS
SINGLE AUDIT REPORT
Year ended June 30, 2002

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL	
Independent Auditors' Report on General Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	1-2
General Purpose Financial Statements:	
Combined Balance Sheet - All Governmental Fund Types and Account Groups	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Debt Service Funds	6
Notes to General Purpose Financial Statements	7-23
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	26-27

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF BARRANQUITAS
SINGLE AUDIT REPORT
Year ended June 30, 2002

TABLE OF CONTENTS

	<u>Page</u>
Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program	28-29
AUDIT FINDINGS AND QUESTIONED COSTS	
Schedule of Findings and Questioned Costs	30-51
Client's Response to Schedule of Findings and Questioned Costs	52
Summary Schedule of Prior Audit Findings and Questioned Costs	53-56

**INDEPENDENT AUDITORS' REPORT
ON THE GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

To the Honorable Mayor
and the Municipal Assembly
Municipality of Barranquitas
Barranquitas, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Barranquitas (the Municipality), as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 4, the Municipality of Barranquitas has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2002. Also, as disclosed in Note 10, at June 30, 2002, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and postclosure costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality estimates and recognizes the municipal solid waste landfill closure and postclosure care costs.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group and the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Barranquitas as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Municipality, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the Municipality. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

San Juan, Puerto Rico
December 9, 2002

Stamp No. 1851704
was affixed to the
original report



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MUNICIPALITY OF BARRANQUITAS
 COMBINED BALANCE SHEET
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	
ASSETS AND OTHER DEBITS							
Cash	\$3,455,247	\$349,386		\$2,573,550			\$6,378,183
Cash held with fiscal agent			\$1,039,508	1,138,457			2,177,965
Accounts receivable:							
Due from other funds	188,372						188,372
Federal financial assistance							
Other	193,449			300,897			494,346
General fixed assets					\$13,791,909		13,791,909
Amount available in Debt Service Fund						\$1,039,508	1,039,508
Amount to be provided for:							
Retirement of general long-term debt obligations						1,908,492	1,908,492
Retirement of special long-term debt obligations						433,604	433,604
Payment of accrued vacations and sickleave						596,020	596,020
Claims and judgments						90,000	90,000
TOTAL ASSETS AND OTHER DEBITS	<u>\$3,837,068</u>	<u>\$349,386</u>	<u>\$1,039,508</u>	<u>\$4,012,904</u>	<u>\$13,791,909</u>	<u>\$4,067,624</u>	<u>\$27,098,399</u>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF BARRANQUITAS
 COMBINED BALANCE SHEET
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2002

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	
LIABILITIES							
Accounts payable and accrued liabilities	\$110,713	\$2,880					\$113,593
Due to other funds	134,363	31,484		22,526			188,373
Due to other governmental entities	96,272						96,272
Deferred volume of business tax	411,566						411,566
Deferred federal financial assistance revenue				5,029			5,029
General long-term debt obligations					\$2,948,000		2,948,000
General long-term special obligations					433,604		433,604
Accrued vacations and sick leave					596,020		596,020
Claims and judgments					90,000		90,000
TOTAL LIABILITIES	<u>752,914</u>	<u>34,364</u>		<u>27,555</u>		<u>4,067,624</u>	<u>4,882,457</u>
FUND EQUITY							
Investment in general fixed assets					13,791,909		13,791,909
Fund balance:							
Reserved for encumbrances	188,449						188,449
Reserved for debt service			1,039,508				1,039,508
Unreserved:							
Designated for future years expenditures		315,022		3,985,349			4,300,371
Undesignated	2,895,705						2,895,705
TOTAL FUND EQUITY	<u>3,084,154</u>	<u>315,022</u>	<u>1,039,508</u>	<u>3,985,349</u>	<u>13,791,909</u>	<u>-</u>	<u>22,215,942</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$3,837,068</u>	<u>\$349,386</u>	<u>\$1,039,508</u>	<u>\$4,012,904</u>	<u>\$13,791,909</u>	<u>\$4,067,624</u>	<u>\$27,098,399</u>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF BARRANQUITAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES
 Year ended June 30, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$759,098	-	\$362,905	-	\$1,122,003
Volume of business tax	634,288	-	-	-	634,288
Licenses and permits	84,994	-	-	-	84,994
Intergovernmental revenues	6,251,314	-	-	\$1,385,951	7,637,265
Federal financial assistance	-	\$560,215	-	490,218	1,050,433
Rent of property	64,125	-	-	-	64,125
Interest	131,336	-	24,914	40,757	197,007
Miscellaneous	372,973	-	-	-	372,973
TOTAL REVENUES	8,298,128	560,215	387,819	1,916,926	11,163,088
EXPENDITURES					
General administration	4,713,840	68,039	-	53,333	4,835,212
Public safety	296,152	191,389	-	-	487,541
Public works	1,669,635	-	-	433,404	2,103,039
Culture and recreation	350,067	-	-	-	350,067
Environmental control	795,653	-	-	-	795,653
Welfare	386,114	409,491	-	-	795,605
Debt Service:					
Payment of principal	-	-	256,401	-	256,401
Interest	-	-	224,943	-	224,943
Capital outlays	-	-	-	531,594	531,594
TOTAL EXPENDITURES	8,211,461	668,919	481,344	1,018,331	10,380,055
Excess (Deficiency) of revenues over expenditures	86,667	(108,704)	(93,525)	898,595	783,033
OTHER FINANCING SOURCES (USES)					
Operating transfer from other funds	71,221	-	137,227	-	208,448
Operating transfer to other funds	(137,227)	-	(30,464)	(40,757)	(208,448)
TOTAL OTHER FINANCING SOURCES (USES)	(66,006)	-	106,763	(40,757)	-
Excess (Deficiency) of revenues and other financing sources over expenditures and other financing (uses)	20,661	(108,704)	13,238	857,838	783,033
Fund balance at beginning of year	3,063,493	423,726	1,026,270	3,127,511	7,641,000
Fund balance at end of year	\$3,084,154	\$315,022	\$1,039,508	\$3,985,349	\$8,424,033

See accompanying notes to general purpose financial statements

MUNICIPALITY OF BARRANQUITAS
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES
 - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
 Year ended June 30, 2002

	General			Debt Service			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
	REVENUES								
Property taxes	\$1,097,520	\$759,098	(\$338,422)	\$309,320	\$382,905	\$53,585	\$1,406,840	\$1,122,003	(\$284,837)
Volume of business tax	824,086	834,288	10,202				824,086	834,288	10,202
Licenses and permits	68,013	84,994	16,981				68,013	84,994	16,981
Intergovernmental revenues	4,873,144	4,405,578	(467,568)				4,873,144	4,405,578	(467,568)
Rent of property	7,550	64,125	56,575				7,550	64,125	56,575
Interest	177,580	131,338	(46,244)		24,914	24,914	177,580	158,250	(21,330)
Miscellaneous	932,310	372,973	(559,337)				932,310	372,973	(559,337)
TOTAL REVENUES	7,780,203	6,452,390	(1,327,813)	309,320	387,819	78,499	8,089,523	6,840,209	(1,249,314)
EXPENDITURES									
General administration	3,745,258	3,620,040	125,218				3,745,258	3,620,040	125,218
Public safety	373,150	307,833	65,317				373,150	307,833	65,317
Public works	1,928,850	1,232,717	695,933				1,928,850	1,232,717	695,933
Culture and recreation	422,327	348,320	78,007				422,327	348,320	78,007
Environmental control	872,547	790,940	81,607				872,547	790,940	81,607
Welfare	438,271	381,151	57,120				438,271	381,151	57,120
Debt Service:									
Payment of principal				143,283	256,401	(113,138)	143,283	256,401	(113,138)
Interest				186,057	224,943	(58,886)	186,057	224,943	(58,886)
TOTAL EXPENDITURES	\$7,780,203	6,679,001	1,101,202	309,320	481,344	(172,024)	\$8,089,523	7,160,345	929,178
Excess (Deficiency) of revenues over expenditures		(226,611)	(226,611)		(93,525)	(93,525)		(320,138)	(320,138)
OTHER FINANCING SOURCES (USES)									
Operating transfer from other funds		30,464	30,464		137,227	137,227		167,891	167,891
Operating transfer to other funds		(137,227)	(137,227)		(30,484)	(30,484)		(167,891)	(167,891)
TOTAL OTHER FINANCING SOURCES (USES)		(106,763)	(106,763)		106,763	106,763			
Excess (Deficiency) of revenues and other financing sources over expenditures and other financing (uses)		(\$333,374)	(\$333,374)		\$13,238	\$13,238		(\$320,138)	(\$320,138)

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Barranquitas (the Municipality) was established in 1804. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen (14) member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: general and administrative services, public safety, public works, culture and recreation, sanitation, health, housing and urban development and welfare.

The Municipality's general purpose financial statements are presented in accordance with generally accepted accounting principles, as applicable to governmental entities. A summary of the Municipality's significant accounting policies follows:

A. REPORTING ENTITY

The Statement 14 of the Governmental Accounting Standards Board, Defining the Governmental Financial Reporting Entity, specifies the criteria to be used in defining the reporting entity for financial reporting purposes. The basic, but not the only, criteria for including a potential component unit in the reporting entity are the following:

- a. Legally separate organization
- b. Financial accountability
- c. Financial accountability, as a result of fiscal dependence

Based on these criteria, at June 30, 2002, there are no significant component units for which the Municipality exercises oversight responsibility. Therefore, the reporting entity is limited to those departments which comprise the Municipality's primary government.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

B. BASIS OF PRESENTATION

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Municipality. Additional data has been obtained from reports prepared by other departments based on independent or subsidiary accounting records maintained by them.

The Municipality records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Governmental Fund Types

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General - is the general operating fund of the Municipality. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service - is used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

Capital Projects - is used to account for financial resources reserved for the acquisition or construction of major capital facilities.

Account Groups

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Long-Term Debt - is used to account for all long-term debt obligations of the Municipality.

General Fixed Assets - is used to account for all fixed assets of the Municipality (See Note 4).

C. BASIS OF ACCOUNTING

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligation which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality, therefore, revenues are recognized based upon

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

D. ENCUMBRANCES

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve that portion of the applicable appropriation for future obligations. Open encumbrances at year-end are reported as a reserve of fund balance since they do not constitute expenditures or liabilities.

E. BUDGETARY DATA

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance to the Municipal Law.

1. Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

2. The budget document is available for public inspection prior to its approval by the Municipal Assembly. Also, a copy of the document is sent to the Municipal Affairs Commissioner for further evaluation and recommendation.
3. Prior to July 1, the annual budget is legally enacted through the approval of the annual appropriation ordinance.
4. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

Amendments to the budget, require the approval of the Municipal Assembly. Transfers of appropriations within the budget, do not require the approval of the Municipal Assembly. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for encumbrances and property tax advances as described below.

The actual result of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The necessary adjustments to convert the result of operations of the General Fund from the accounting basis to the budgetary basis are as follows:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

	<u>Revenues</u>	<u>Expenditures</u>
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	\$8,298,128	\$8,211,461
Add:		
Current year encumbrances treated as current year expenditures for budgetary purposes		188,449
Deduct:		
Non-budgetary items	1,845,738	1,021,453
Payment of "Resultas"		508,452
Prior year encumbrances	_____	191,004
Budgetary basis	<u>\$6,452,390</u>	<u>\$6,679,001</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

F. CASH

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Treasury Department of the Commonwealth of Puerto Rico. Cash balances from most funds are pooled and invested. All cash in banks at June 30, 2002, is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

Cash balance at June 30, 2002, includes Certificates of Deposit amounting to \$2,400,421, pertaining to the General Fund.

G. INTERFUND TRANSACTIONS

The General Fund provides services at cost to the Special Revenue Funds. The amounts charged to these funds for the services provided are treated as a reduction of expenditures in the special revenue funds.

H. RESERVATIONS OF FUND BALANCE

Reservations of fund balance are those portions of fund balances that are not appropriable for expenditure or that are legally segregated for a specific future use. The Municipality has the following reservations of fund balance:

- Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. Generally these committed amounts will become liabilities in future periods as the goods or services are performed or received.
- Debt Service - represent net assets available to finance future debt service payments.

I. COMPENSATED ABSENCES

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employees' entitled

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

vacation and sick leave are accrued in the General Long-Term Debt Account Group because it will not be funded with available expendable financial resources.

J. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

K. TOTAL COLUMNS (MEMORANDUM ONLY)

The total columns are presented only to facilitate additional analysis. Consequently, amounts shown in Total Columns (Memorandum Only) do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

NOTE 2 - PROPERTY TAXES

During August 1991, Law 80 was enacted to create an agency, named Municipal Revenues Collection Center (known by its Spanish acronym, CRIM), which assumed the functions of the assessment, levy and collection of all real and personal property taxes from the Office of Municipal Affairs of the Treasury Department effective July 1, 1993. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The annual tax rate for fiscal year 2002 is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the General Fund. Such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt services and accounted for in the Debt Service Fund. The Commonwealth also contributes an annual tax rate 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retail businesses with an annual volume of sales not exceeding \$150,000.

The CRIM advances to the Municipality an estimated amount of the basic property tax levied on non-exempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the final settlement from CRIM related to fiscal year 2001-2002. The final settlement shows an excess of advances and charges from CRIM over collections of approximately \$45,110. This amount is shown in the accompanying Combined Balanced Sheet as an amount payable to a governmental entity by the General Fund.

NOTE 3 - VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their declaration by April 15 of each year.

The tax rates are as follows:

- Financial institutions	1.00%
- Other organizations	.30%

The tax is payable in two equal semi-annual installments on July 1 and January 1 following the levy date. A discount of 5% is allowed for the full payment on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements which are recorded in the Capital Projects Fund.

NOTE 4 - GENERAL FIXED ASSETS

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, construction in progress, buildings and equipment.

Following is a summary of changes in general fixed assets for the fiscal year ended June 30, 2002:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

	(UNAUDITED)
Balance at July 1, 2001	\$13,206,004
Additions	585,905
Retirements	<u>-</u>
Balance at June 30, 2002	<u>\$13,791,909</u>

NOTE 5 - GENERAL LONG-TERM DEBT

The general long-term debt transactions as of June 30, 2002, are as follows:

	<u>Balance at July 1, 2001</u>	<u>Additions</u>	<u>Payments or Retirements</u>	<u>Balances at June 30, 2002</u>
General Obligations	\$2,186,000	\$910,000	\$148,000	\$2,948,000
Special Obligations	542,005	-	108,401	433,604
Accrued vacations and sick leave	604,696	-	8,676	596,020
Claims and judgements	<u>40,000</u>	<u>50,000</u>	<u>-</u>	<u>90,000</u>
Total	<u>\$3,372,701</u>	<u>\$960,000</u>	<u>\$ 265,077</u>	<u>\$4,067,624</u>

General long-term debt at June 30, 2002, is as follows:

General obligations:

\$1,525,000 bonds due in annual installments ranging from \$30,000 to \$105,000, plus interest at 7.08% to 7.81% through July 1, 2019	\$1,420,000
\$190,000 bonds due in annual installments ranging from \$30,000 to \$45,000, plus interest ranging from 7.08% to 7.81% through July 1, 2004	85,000
\$160,000 bonds due in annual installments ranging from \$6,000 to \$9,000, plus interest at 5% through January 1, 2007	43,000
\$205,000 bonds due in annual installments ranging from \$15,000 to \$30,000, plus interest at 5.0% through July 1, 2007	50,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

\$910,000 bonds due in annual installments ranging from \$5,000 to \$80,000, plus interest ranging from 2.80% to 5.60% through July 1, 2008	905,000
\$515,000 bonds due in annual installments ranging from \$5,000 to \$45,000, plus interest ranging from 6.1% to 8.2% through July 1, 2019	<u>445,000</u>
Total general obligations	<u>\$2,948,000</u>
Special Obligations:	
\$2,100,000 loan (series 1990) payable in semi annual installments of \$98,000, plus interest at 8.5% through July 1, 2006	\$ 392,000
Special Loan (series 1987) payable to the Government Development Bank for Puerto Rico in quarterly installments of \$2,600, plus interest at 8% through July 1, 2006	<u>41,604</u>
Total special obligations	<u>433,604</u>
Other:	
Accrued vacations and sick leave	596,020
Claims and judgements	<u>90,000</u>
Total general long-term debt	<u>\$4,067,624</u>

The annual requirements for the amortization of general long-term debt obligations outstanding as of June 30, 2002, is as follows:

<u>Year ended June 30,</u>	<u>Principal</u>
2003	\$276,401
2004	236,401
2005	197,401
2006	202,401
2007	109,000
Thereafter	<u>2,360,000</u>
Total	<u>\$3,381,604</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

NOTE 6 - DEBT SERVICE FUND

Revenues for the Debt Service Fund mainly consists of the ad valorem property taxes which are recognized as revenue when collected and reported by the CRIM. These taxes are for the debt service requirements of the bonds and notes obligations issued by the Municipality. Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the ad valorem taxes and received from the CRIM.

NOTE 7 - OPERATING TRANSFER FROM (TO) OTHER FUNDS

During the fiscal year ended June 30, 2002, the Debt Service and the Capital Projects Funds transferred to the General Fund a total of \$30,464 and \$40,757, respectively, representing interest earned from cash held on behalf of the Municipality by the Government Development Bank for Puerto Rico.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in various lawsuits. For those cases in which it is probable or reasonable possible that a loss will be incurred and in which the amount of the potential judgement can be reasonably estimated, the Municipality's attorney estimates the liability to be \$90,000, and has been recorded in the general long-term debt account group.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

The Municipality is a grantee in various federal financial assistance programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance costs as a result of these audits, become a liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Municipality's local funds. The Schedule of Findings and Questioned Costs for the year ended June 30, 2002, disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, but the Municipality expects such amounts, if any, to be immaterial to the general purpose financial statements.

The Municipality is the lessor of a land lot located at Helechal Ward, under a month to month operating lease with monthly payments amounting to \$150.

NOTE 9 - PENSION PLAN

The Employees' Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of credited service. Benefits vest after ten years of plan participation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total contributions to the System made by the Municipality during the year ended June 30, 2002, amounted to \$224,870.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2002

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assures that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan. Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, Puerto Rico 00940.

NOTE 10 - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2002, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2002

<u>FEDERAL GRANTOR\ PASS-THROUGH GRANTOR\ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY GRANTOR IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Low-Income Housing Program (Section 8 - Voucher)	14.156	RQ-46-V060-001-003	\$ 287,870
Pass-through State - Office of the Commissioner of Municipal Affairs- State Block Grant Program	14.219*	Program Year - 2000 Program Year - 1999 Program Year - 1998 Program Year - 1997 Program Year - 1994 Program Year - 1993	.180,059 80,429 15,643 44,465 21,001 2,540 <u>344,137</u>
U.S. DEPARTMENT OF JUSTICE Public Safety and Community Policy Grants	16.710	98UMWX2448	191,389
U.S. DEPARTMENT OF AGRICULTURE Pass-through State - Puerto Rico Commission for the Elderly	10.558	N/A	106,868
Total Federal Financial Assistance			<u>\$930,264</u>

*Major Program
N/A - Not Available

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2002

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Barranquitas and is presented on the modified accrual basis of accounting. The Municipality of Barranquitas reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations.

NOTE 2 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenues and expenditures of the federal awards are included in the Municipality's general purpose financial statements within the Special Revenue and Capital Projects Funds. The reconciliation between the expenditures in the general purpose financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the general purpose financial statements:

Special Revenue Fund	\$ 668,919
Capital Projects Fund	<u>1,018,331</u>
	1,687,250
Less non-federal expenditures	<u>(756,986)</u>
Expenditures in the Schedule of Expenditures of Federal Awards	<u>\$930,264</u>



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor
and the Municipal Assembly
Municipality of Barranquitas
Barranquitas, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Barranquitas (the Municipality) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 9, 2002, which was qualified for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to audit general fixed assets account group at June 30, 2002 and the omission as of that date of the landfill closure and post closure costs. Except as previously noted, we conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, except for Finding 02-01 thru 02-10 included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-01 thru 02-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness, except for Finding 02-01 thru 02-5 included in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information and use of the Municipal Assembly, management, federal awarding agencies, state funding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
December 9, 2002

Stamp No. 1851705
was affixed to the
original report



CPA-PSC

 BENITEZ-JAIME, CPA-PSC



**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM**

To the Honorable Mayor and
the Municipal Assembly
Municipality of Barranquitas
Barranquitas, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Barranquitas (the Municipality) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality's major federal programs are identified in the Section I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on the Municipality of Barranquitas compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

In our opinion, except for the instances of noncompliance disclosed below, the Municipality of Barranquitas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures disclosed several instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-11 thru 02-20.

Internal Control Over Compliance

The management of the Municipality of Barranquitas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality'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.

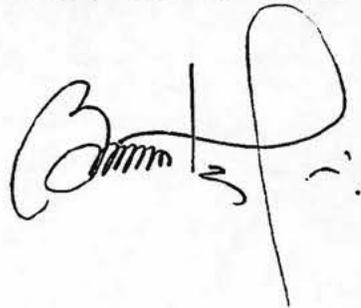
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-11 thru 02-20.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses, except for Finding 02-11 included in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information and use of the Municipal Assembly, management, federal awarding agencies, state funding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

San Juan, Puerto Rico
December 9, 2002

Stamp No. 1851706
was affixed to the
original report



CPA-PSC

 BENITEZ-JAIME, CPA-PSC

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2002

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified
Internal control over financial reporting:
Material weakness(es) identified? X yes no
Reportable condition(s) identified
not considered to be material weakness? X yes none reported
Noncompliance material to financial statements
noted? X yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X yes no
Reportable condition(s) identified
not considered to be material weaknesses? X yes none reported
Type of auditor's report issued on compliance
For major programs: Qualified
Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.219	Pass-through State-State Block Grant Program

Dollar threshold used to distinguish
Between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

Section II - Financial Statement Findings

The current year findings and questioned costs were discussed with the Municipality's management which generally concurred with our comments and recommendations. The Municipality of Barranquitas will respond to the following findings through the issuance of a separate letter addressed to the Cognizant Agency.

02-1 ACCOUNTING SYSTEM

The Municipality's current accounting system does not comply with requirements established in the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico and Law 81 of August 30, 1991. Such regulations provide, among other things that the municipal accounting shall be based on generally accepted accounting principles.

Also, the computerized accounting system should provide for financial information that will serve as the basis for the effective control of revenues, expenditures, property and investments, since this information is necessary for the preparation of reliable financial statements in accordance to generally accepted accounting principles. Finally, the Municipality is responsible for designing fiscal procedures for the system's operations and establishing proper internal controls for the purpose of preventing or minimizing irregularities.

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. Accounting records were maintained on a cash basis during the year and at end of year the corresponding adjustments were made to convert the records to the modified accrual basis. The conversion to the modified accrual basis requires a

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

significant effort because the information has to be gathered from different informal accounting records. The system lacks the necessary supporting records for the preparation of financial statements in accordance with generally accepted accounting principles. Additionally, we noted that certain records in use were not adequately maintained or posted on a timely basis.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2002, was more difficult and less efficient than would have been in ordinary circumstances. A significant amount of adjusting entries had to be made in order to account for unrecorded transactions, or to correct transactions recorded in the wrong accounting period, fund type or account group. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records which are not integrated.

02-2 FIXED ASSETS

During our examination of the fixed assets, the following deficiencies were noted:

- a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets property ledger.
- b) The subsidiary ledger is not reconciled with the Municipality's accounting records.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002**

- c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.

- d) The property records do not provide the necessary information to make the disclosures required by 1980 GAAFR (Governmental Accounting, Auditing and Financial Reporting).

- e) The acquisition of fixed assets are not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.

As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between, land, building, equipment and construction in progress.

RECOMMENDATION:

We recommend that the Municipality should:

- a) Establish adequate control procedures to assure that all applicable expenditures are properly recorded in the Municipality's property records on a timely basis.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

- b) Perform a physical inventory of all property and equipment and compare it with the items recorded in the property ledger. All differences noted should be immediately investigated and resolved. After updating the property ledger, formal procedures should be established to take a physical inventory on a periodic basis (at least once a year).

- c) Revise the property records to provide the information necessary to make the disclosures required by the 1980 GAAFR, which consist of the following:
 - General fixed assets by sources
 - General fixed assets by function and activity classifications for each major assets class
 - Changes in general assets by function and activities
 - Changes in general fixed assets by major assets class

- d) Designate a person to analyze the expenditure accounts to identify and prepare a report of all items that should be included in the property records. This report should be included in the property records. This report should be sent to the property custodian to reconcile and update the property ledger.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

02-3 LONG-TERM DEBT

The Municipality does not maintain adequate records of its outstanding long-term obligations, and consequently, solely relies on the notifications from the Government Development Bank for Puerto Rico to acknowledge and record the balance of the outstanding debt and the amounts needed to fund its debt service.

RECOMMENDATION:

The Municipality should design a system and establish adequate procedures to maintain accounting records of its outstanding long-term obligations. These records will be used to verify the correctness of the amounts informed by the CRIM for the Municipality's Debt Service Fund under the custody of the Government Development Bank for Puerto Rico and the outstanding balance of the long-term debt.

02-4 INTERFUND TRANSACTIONS

The Municipality does not maintain adequate control over interfund transactions. Cash transferred between funds is recorded as revenue in the receiving fund and as an expenditure in the disbursing fund. Several adjustments were made to reconcile such interfund transactions and properly account for these transfers as interfund receivables or payables.

RECOMMENDATION:

We recommend that adequate control procedures be established to assure proper accountability of interfund transactions. These procedures should be designed to properly segregate

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

cash transferred on a loan basis from cash which represents revenue to the program since these transactions have different accounting treatment for financial statement presentation.

02-5 ACCOUNTS PAYABLE AND ENCUMBRANCES

Under the Municipality's current accounting system, there is no adequate segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when the purchase order is issued.

RECOMMENDATION:

The Municipality should establish procedures to clearly distinguish between encumbrances and amounts actually owed for goods and services received at year end. Governmental generally accepted accounting principles required that purchase orders issued for which the goods or services have not been received at year end be reported as an encumbrance, while the goods or services received but not paid at year end be recorded as a liability.

02-6 CASH MANAGEMENT

The OMB Common Rule requires that grantees' cash management system includes administrative procedures to minimize the time elapsing between the transfer of federal funds and the disbursement of these by the grantee. When advances of funds are made by the letter of credit method, funds shall be disbursed not later than three days after the date of the drawdown.

Although the Municipality has established procedures to ensure compliance with the above requirement, our disbursement test revealed instances in which disbursements were made several weeks after the funds were received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002**

RECOMMENDATION:

We recommend that the Municipality's management to instruct the Federal Programs personnel to strictly follow the established procedures regarding cash management requirements.

02-7 PERSONNEL FILES AND PAYROLL RELATED PROCEDURES

As part of our payroll test, we selected a sample of 42 personnel files. Following is a summary of the deficiencies noted:

- For 29 (69%) of the items selected, the personnel files did not include the employee evaluation form.
- In 10 (24%) of the items selected, the personnel files did not include the Good Behavior Certificate.
- In 21 (50%) of the items selected, the personnel files did not include the job description.
- In 38 (90%) of the items selected, the personnel files did not include the medical exam.
- In 10 (24%) of the items selected, the personnel files did not include the Employee Status Changes Report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

RECOMMENDATION:

The Municipality should implement a checklist to be used for each employee to assure completeness of the required documentation and perform follow-up procedures in order to update the employees files.

02-8 MUNICIPAL LICENSE TAX

During our municipal license tax tests, we selected a sample of 40 municipal license taxpayers files, amounting to approximately \$56,472 of current year's tax liabilities and the following exceptions were noted.

- In 1 out of the 40 files selected for examination, the audited financial statements of the taxpayer did not agree with the amount reported in the volume of business tax declaration.
- In 4 out of the 40 files selected for examination, we noted that the gross volume of business reported in the tax return did not include any supporting documentation.
- In 2 out of the 40 files selected for examination, we noted that the municipal license tax return was not properly certified by an municipal authorized official.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

RECOMMENDATION:

The Municipality should improve the existing procedures related to the municipal license taxpayer files, to ascertain its completeness and accuracy. Also, the Municipality should implement a checklist to be used for each taxpayer to assure completeness of the required documentation.

02-9 DISBURSEMENT TEST

As part of our test of cash disbursements during the year (amounting to approximately \$11 million), we selected 40 disbursement vouchers amounting to \$1,335,179, representing 12% of the total disbursements. The following deficiencies were noted during our examination:

- In 4 (10%) disbursement vouchers amounting to \$53,097, the disbursement documentation does not include the three quotations bid procedures required by law for the heavy equipment rental.
- In 25 (63%) disbursement vouchers amounting \$109,362, the disbursements were not recorded in the Contracts and Orders Book.
- In 4 (10%) disbursement vouchers amounting to \$424,232, the disbursements were not posted in General Ledger.

According to the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit or person in charge of pre-auditing the documents shall keep a record of the authorized signatures of the Municipality. He shall check against such record to ascertain that the officers certifying the documents are so authorized. He shall check the documents correctness in all of its parts and that the transactions in order to pursuant the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002**

be certified as preaudited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all canceled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should enforce strict compliance with the procedures prescribed by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies, equipment, and construction and service contracts.

02-10 BIDDING PROCEDURES

As part of our procedures test, we selected 7 auction files representing 37% of the bids performed during the year. The following summarizes de exceptions noted:

- One auction file did not include the bid specifications.
- One auction file did not include the Bid Bond as required by the regulations.

RECOMMENDATION:

We recommended to the Municipality to improve existing procedures in order to comply with prescribed procedures as established by the Revised Regulations of Basic Standards of the Municipalities of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2002

Section III - Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
All Programs	02-11 INADEQUATE PROPERTY RECORDS The Municipality of Barranquitas is not maintaining adequate property records that provide all the information required by federal regulations. Property records maintained by the Federal Programs only include limited information such as property number, item description and quantity. The Common Rule, 45 CFR Part 92, Subpart C, requires that property records shall include, the source of property, acquisition date, percentage of federal participation in the cost of the property, location, use and condition of the property and any disposition data, including the date of disposal and sale price. The Federal Programs should include all required information on property records to adequately safeguard all property and must assure that it is used solely for authorized purposes. (This condition was also described in Finding 02-2 of the Section II of the Schedule of Findings and Questioned Costs, page 32)	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTION COSTS
Year ended June 30, 2002

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
Section 8 Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p data-bbox="440 501 1029 533">02-12 FEDERAL FINANCIAL REPORTS</p> <p data-bbox="440 600 1125 1121">The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's central accounting department records. The Municipality has not established procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department records. As a result, this condition may lead to inaccurate reporting of programs supported activities.</p> <p data-bbox="440 1199 1125 1667">OMB Circular A-102, 20 (b) (2) requires recipient of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the Federal Program. The Municipality should prepare federal financial reports based on the Program's underlying accounting records.</p>	<p data-bbox="1312 1094 1401 1121">NONE</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTION COSTS
Year ended June 30, 2002

Program

Findings/Noncompliance and Recommendations

Questioned
Cost

Recommendation:

The Municipality should implement a checklist to be used for each participant file to assure completeness of the required documentation and perform follow-up procedures in order to update such files.

Section 8-Voucher
CFDA No 14.156
RQ-46-V060-001-003

**02-14 VOUCHER FOR PAYMENT OF ANNUAL
CONTRIBUTIONS AND OPERATING
STATEMENT**

Statement of Condition:

During our review of the Voucher for {Payment of Annual Contributions and Operating Statement, Form HUD-52681-A, we noted that the information reported did not agree with the program's accounting records:

<u>Account</u>	<u>Per Report</u>	<u>Per Program Records</u>	<u>Difference</u>	
Prepaid annual contributions	\$280,664	\$287,817	\$7,153	
Administrative expenses	35,751	36,414	663	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTION COSTS
Year ended June 30, 2002

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
	<p>Criteria:</p> <p>OMB Circular A-102, 20 (b)(2), requires recipients of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete disclosure of the financial results of the program.</p> <p>Recommendation:</p> <p>The Municipality should implement procedures to review each report sent to the Federal Agency, and ascertain that the financial information is in accordance with the program accounting records.</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
Section 8-Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p data-bbox="444 468 1005 499">02-15 CASH MANAGEMENT SYSTEM</p> <p data-bbox="444 552 756 583">Statement of Condition:</p> <p data-bbox="444 646 1118 913">The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$61,136, during the fiscal year. There were months which reported balances as high as \$59,776 at the end of the month.</p> <p data-bbox="444 976 557 1008">Criteria:</p> <p data-bbox="444 1071 1118 1243">Federal Regulation requires that grantees shall conform to the standards applicable to advances from federal agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p data-bbox="444 1306 683 1337">Recommendation:</p> <p data-bbox="444 1400 1118 1568">In accordance with Federal Regulations, the Municipality should estimate drawdown of federal funds as closely as possible to the actual disbursements.</p>	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
Section 8-Existing CFDA No. 14.156 RQ-46-E060-001-003	<p>02-16 CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program had an average cash balance of approximately \$92,063, during the fiscal year. There were months which reported balances as high as \$92,048 at the end of month.</p> <p>Criteria:</p> <p>Federal regulation requires that grantees shall conform to the standards applicable to advances from federal agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.219 Program year 2000	02-17 CASH MANAGEMENT SYSTEM Statement of Condition The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$12,123, during the fiscal year. There were months which reported balances as high as \$24,305 at the end of the month. Criteria: Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs. Recommendation: In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.219 Program year 1999	<p>02-18 CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$29,566, during the fiscal year. There were months which reported balances as high as \$44,244 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements</p>	NONE
SBGP CFDA No. 14.219 Program year 1998	<p>02-19 CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The Program had an</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
	<p>average cash balance of approximately \$361,356, during the fiscal year. There were months which reported balances as high as \$369,511 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements</p>	<p>NONE</p>
<p>SBGP CFDA No. 14.219 Program years 1999</p>	<p>02-20 DAVIS-BACON ACT</p> <p>Statement of Condition:</p> <p>In 1 out of 2 weekly payrolls selected for examination, the weekly payroll submitted by the contractor lacks evidence documentation to determine if the employee was paid at the prevailing wages rate.</p>	<p>NONE</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BARRANQUITAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year ended June 30, 2002

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
	<p>Criteria:</p> <p>According to HUD Handbook 1344-1 REV-1, Section 2, 3-3, contractor weekly payrolls should be examined to assure compliance with labor standards.</p> <p>Recommendation:</p> <p>The Municipality should establish procedures to ascertain that all documents submitted by the contractor are reviewed and approved on a timely basis to ensure compliance to labor standards.</p>	
	<p>Total Questioned Costs</p>	<p><u>\$ -</u></p>

Gobierno Municipal de Barranquitas

December 17, 2002

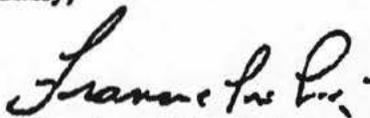
Benitez-Jaime, CPA-PSC
Certified Public Accountants and
Business Consultants
P.O. Box 191503
San Juan, P.R. 00919-1503

Dear Auditors:

We have received the Schedule of Findings and Questioned Costs, included in the Singel Audit Report of the Municipality of Barranquitas for the year ended June 30, 2002.

Although we have already discussed the above mentioned findings. (Financial Statements and Federal Awards Findings) we are in the process of gathering all the relevant information and preparing the related responses. In order to comply with OMB Circular A-133 after completing this task we are going to issue our corrective actions taken on all prior audit findings and our responses to the current findings directly to the grantors and required government agencies.

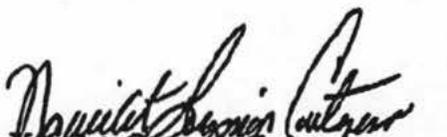
Cordially,



Hon. Francisco López López
Mayor



José O. Díaz Santos
Finance Director



Aníbal Guzmán Cartagena
Federal Programs Acting Director

*"Hacia la celebración de nuestra fundación:
Principio inherente de nuestro ser barranquiteño"*

PO Box 250 Barranquitas PR 00794-0250 • Tel. (787) 857-2065 • Fax (787) 857-4456

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2000-2001**

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2001. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).

- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-2002).

- NR - Not resolved yet. Finding repeated in fiscal year 2001-2002.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
01-01	Fixed Assets	NR
01-02	Personnel files and payroll related procedures	NR
01-03	Municipal license tax	NR

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 2000-2001**

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2001. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-02).
- NR - Not resolved yet. Finding repeated in fiscal year 2001-02.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
01-4	Inadequate property records	NR
01-5	Federal financial reports	FR
01-6	Documentation of participant files	NR
01-7	Year end Settlement Statement	NR
01-8	Cash management system	NR
01-9	Cash management	NR
01-10	Cash management	NR
01-11	Requisition of funds	FR

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 1999-2000**

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on the Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2000. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-02).
- NR - Not resolved yet. Finding repeated in fiscal year 2001-02.

<u>Finding number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-1	Fixed Assets	NR
00-2	Cash and bank accounts	NR
00-3	Personnel files and payroll related procedures	NR
00-4	Municipal license tax	NR

**SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
FISCAL YEAR 1999-2000**

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2000. Under the heading Corrective Action taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-02).
- NR - Situation not resolved yet. Finding repeated in fiscal year 2001-02.

<u>Finding number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-5	Cash and bank accounts	FR
00-6	Inadequate property records	NR
00-7	Federal financial reports	NR
00-8	Inadequate documentation of participant files	NR