

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CABO ROJO
AUDITORIA 2001-02
30 DE JUNIO DE 2002

GENERAL PURPOSE FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS WITH
ADDITIONAL REPORTS REQUIRED
UNDER THE OMB CIRCULAR A-133

MUNICIPALITY OF CABO ROJO

JUNE 30, 2002

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Report of Independent Certified Public Accountants

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Cabo Rojo, Puerto Rico, 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 third and fourth paragraphs, we conducted our audit in accordance with U.S. 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 the provisions of the Office of Management and Budget Circular A-133 "Audits of States, Local Governments and Non-Profit Organizations". Those standards and the OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records we were unable to form an opinion regarding valuation of cash in the general and special revenue fund; due from (to) other funds between general, special revenue and capital project funds; and some state and federal grants revenues and expenditures at special revenue fund. We were unable to satisfy ourselves by means of other auditing procedures.

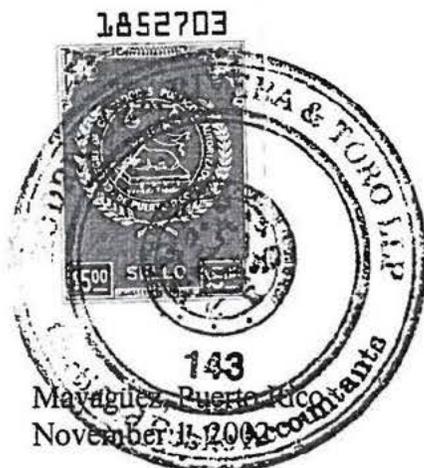
Because of the inadequacy of accounting records we were unable to form an opinion regarding valuation and completeness of the fixed assets inventory, as recorded in the general fixed assets account group.

As more fully described in Note D(12), the Municipality has not determined and recorded an estimate of the total municipal solid waste landfill post closure care costs and the portion of the estimated total current costs of closure and post closure care of other solid waste landfill, as required by generally accepted accounting principles. The effect of this departure on the general purpose financial statements is not reasonably determinable.

In our opinion, except for the effect of such adjustments, if any, as might have been determine to be necessary had the matters discussed in the third and fourth paragraphs been susceptible to satisfactory tests; and for the effects of not determining the estimate of solid waste landfill post closure care costs and the portion of the estimated total current costs of closure and post closure care of other solid waste landfill as described in the fifth paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Cabo Rojo as of June 30, 2002, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 1, 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be used in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Municipality of Cabo Rojo 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. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the matters discussed in the third paragraph been susceptible to satisfactory tests, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.



Rodriguez, Luana & Toro LLP

Municipality of Cabo Rojo

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debts	
ASSETS AND OTHER DEBITS							
Cash and certificates of deposit (note D1)	\$ 3,590,045	\$ 230,573	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 4,820,619
Receivables (net where applicable of allowance for uncollectible)							
State governmental agencies (note D2)	334,103	-	-	-	-	-	334,103
Federal government	-	54,545	-	-	-	-	54,545
License tax (note D9)	455,316	-	-	-	-	-	455,316
Due from other funds (note D3)	1,000,000	1,672,019	-	-	-	-	2,672,019
Restricted assets							
Cash (note D4)	-	623,917	2,298,069	6,896,081	-	-	9,818,067
Property, plant and equipment (note D5)	-	-	-	-	32,298,067	-	32,298,067
Amount available in debt service fund	-	-	-	-	-	2,298,069	2,298,069
Amount to be provided for retirement of general obligations bonds and operational loans	-	-	-	-	-	11,832,931	11,832,931
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	3,658,264	3,658,264
Total assets and other debits	\$ 5,379,464	\$ 2,581,054	\$ 2,298,069	\$ 7,896,081	\$ 32,298,067	\$ 17,789,264	\$ 68,241,999

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debts	
LIABILITIES							
Vouchers and accounts payable	\$ 316,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 316,758
Due to governmental agencies	282	-	-	-	-	-	282
Accrued liabilities	153,802	54,545	-	69,772	-	-	278,118
Deposits payable	13,766	-	-	-	-	-	13,766
Due to other funds (note D3)	1,672,019	-	-	1,000,000	-	-	2,672,019
Deferred revenues (note D6)	2,699,708	160,050	-	-	-	-	2,859,759
General obligation bonds and operational loans (note D7)	-	-	-	-	-	14,131,000	14,131,000
Other long-term debts (note D7)	-	-	-	-	-	3,658,264	3,658,264
Total liabilities	4,856,335	214,595	-	1,069,772	-	17,789,264	23,929,965
Contingencies (note E)							
FUND EQUITY AND OTHER CREDITS							
Investment in general fixed assets	-	-	-	-	32,298,067	-	32,298,067
Fund balance							
Reserved for debt service	-	-	2,298,069	-	-	-	2,298,069
Unreserved							
Designated for subsequent years expenditures	-	2,366,459	-	6,826,309	-	-	9,192,768
Undesignated	523,130	-	-	-	-	-	523,130
Total fund equity (deficit) and other credits	523,130	2,366,459	2,298,069	6,826,309	32,298,067	-	44,312,034
Total liabilities, fund equity (deficit) and other credits	\$ 5,379,464	\$ 2,581,054	\$ 2,298,069	\$ 7,896,081	\$ 32,298,067	\$ 17,789,264	\$ 68,241,999

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2002

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes (note D8)	\$ 7,088,400	\$ -	\$ 1,775,600	\$ -	\$ 8,864,000
Municipal license taxes, licenses and permits (note D9)	3,609,106	-	-	-	3,609,106
Intergovernmental (note D10)	1,869,205	1,826,309	-	-	3,695,513
Rental income of properties	141,780	-	-	-	141,780
Fines and forfeitures	5,105	-	-	-	5,105
Interest	186,277	-	57,061	-	243,338
Sales of land plots	412,289	-	-	-	412,289
Other	33,439	-	-	-	33,439
Total revenues	13,345,601	1,826,309	1,832,661	-	17,004,571
Expenditures					
General government	4,595,204	139,928	-	23,516	4,758,648
Public safety	1,298,703	96,190	-	-	1,394,893
Highway and streets	2,603,604	-	-	-	2,603,604
Sanitation	1,987,577	3,797	-	-	1,991,374
Health	1,690,370	-	-	-	1,690,370
Welfare	73,395	478,184	-	-	551,580
Culture and recreation	679,046	3,500	-	-	682,546
Education	-	194,603	-	-	194,603
Capital projects	-	983,253	-	512,750	1,496,003
Other	285,460	12,901	176,805	23,134	498,300
Debt service					
Principal	-	-	1,187,851	-	1,187,851
Interest	-	-	626,194	-	626,194
Total expenditures	13,213,359	1,912,357	1,990,851	559,400	17,675,966
Excess (deficiency) of revenues over expenditures	132,242	(86,048)	(158,190)	(559,400)	(671,395)
Other financing sources (uses)					
Proceeds from general obligations	-	-	-	4,425,000	4,425,000
Liabilities expected to be refinanced	992,682	-	-	-	992,682
Operating transfers in	284,727	919,091	204,472	-	1,408,290
Operating transfers out	1,016,803	213,600	71,127	106,760	1,408,290
Total other financing sources (uses)	260,606	705,491	133,345	4,318,240	5,417,682
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	392,848	619,443	(24,844)	3,758,840	4,746,287
Fund balance at beginning of year	130,281	1,747,016	2,322,914	3,067,469	7,267,680
Fund balance at end of year	\$ 523,130	\$ 2,366,459	\$ 2,298,069	\$ 6,826,309	\$ 12,013,967

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND**

Year ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
Revenues						
Property taxes	\$ 5,544,334	\$ 6,356,250	\$ 811,916	\$ 1,611,046	\$ 1,775,600	\$ 164,554
Municipal license taxes, licenses and permits	3,332,000	3,609,106	277,106	-	-	-
Intergovernmental	3,276,310	3,036,786	(239,524)	-	-	-
Rental income of properties	210,000	141,780	(68,220)	-	-	-
Fines and forfeitures	10,000	5,105	(4,895)	-	-	-
Interest	525,000	257,403	(267,597)	-	57,061	57,061
Sales of land plots	421,398	412,289	(9,109)	-	-	-
Other	21,000	33,439	12,439	-	-	-
Total revenues	13,340,042	13,852,159	512,117	1,611,046	1,832,661	221,615
Expenditures						
General government	3,875,413	3,557,157	318,256	-	-	-
Public safety	1,298,744	1,286,553	12,191	-	-	-
Highway and streets	2,615,874	2,592,187	23,687	-	-	-
Sanitation	2,020,450	2,010,564	9,886	-	-	-
Health	1,705,387	1,680,163	25,225	-	-	-
Welfare	77,700	73,395	4,305	-	-	-
Culture and recreation	679,109	674,028	5,082	-	-	-
Other	418,634	416,901	1,733	-	176,805	(176,805)
Debt service						
Principal	-	-	-	927,000	1,002,000	(75,000)
Interest	-	-	-	684,046	607,574	76,472
Total expenditures	12,691,312	12,290,948	400,364	1,611,046	1,786,379	(175,333)
Excess (deficiency) of revenues over expenditures	648,731	1,561,211	912,480	-	46,282	46,282
Other financing sources (uses)						
Operating transfers in	13,600	213,600	200,000	-	-	-
Operating transfers out (note B)	662,331	853,978	(191,647)	-	71,127	71,127
Total other financing sources (uses)	(648,731)	(640,378)	8,353	-	(71,127)	(71,127)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 920,833	\$ 920,833	\$ -	\$ (24,844)	\$ (24,844)

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Cabo Rojo was founded in the year 1771. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen members of the Municipal Legislature. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

1. *Financial Reporting entity*

The financial reporting entity included in this report consists of the general purpose financial statements of the Municipality of Cabo Rojo (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and
 - 1) The primary government can impose its will on the potential component unit and/or
 - 2) A financial benefit/ burden exists between the primary government and the potential component unit.

Based on the above criteria there are no potential component units which should be included as part of the general purpose financial statements.

2. Basis of presentation

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by:

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

a. *Governmental Funds*

Governmental Funds are those through which most governmental functions of the Municipality are financed. The acquisition, uses, and balances of the Municipality expendable financial resources and the related 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 Fund. The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted for another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

Capital Project Funds. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

b. *Account Groups*

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

General Fixed Assets Account Group. This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. Such assets include land, building, building improvements, furniture and equipment. The cost of

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

certain roads, streets and sidewalks, bridges and similar assets are capitalized. No depreciation is provided on General Fixed Assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for certain real estate assets including the usufructuary land lots which were valued at appraised or market value. Donated fixed assets are valued at their estimated fair market value on the date donated.

General Long-Term Debt Account Group. This group of accounts is established to account for all long-term debt of the Municipality. Because of their spending measurement focus, expenditures recognition for governmental fund types is limited to exclude amounts represented by non current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

3. Basis of accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

a. Governmental Funds

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Exceptions to this rule are: accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued and principal and interest on general long-term debt in the debt service fund, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year which is recorded when resources are available in the debt service funds.

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

4. Budgetary data

a. Budget policy

Budgets are prepared for General and Debt Service Funds following the requirements of the Autonomous Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums.

Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Legislature. Certain budget transfers within the limitations and restriction of the Autonomous Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting, which is different from GAAP, and reflect encumbrance accounting as described below. In instances where budget revenues and appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final authorization amounts. Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. Formal budgetary integration

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

is not employed for Special Revenue and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. Encumbrances

On a GAAP basis, encumbrances outstanding at year end are reported in the general purpose financial statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary (statutory) basis, encumbrances are recorded as expenditures of current year.

5. Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivables from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

6. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure in the appropriate fund but the year-end inventory is not recorded in the combined balance sheet.

7. Insurance coverage

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico. The coverage for the Municipality of Cabo Rojo consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payments of the Municipality's insurance premiums are withheld quarterly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center (CRIM).

8. Compensated absences

The Municipality's employees accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2 1/2 days per month of vacations and 1 1/2 days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more service up to the maximum number of days.

The amount of vacation leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date.

The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-Term Debt Account Group since it is anticipated that none of the liability already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid are recorded as expenditure in the General Fund.

9. Interfund transactions

Operating transfers are reported when incurred as operating transfers in by the recipient fund and as operating transfers out by the disbursing fund.

10. Use of estimates

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

11. Fund balance

a. Reservation of fund balance

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

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrances: Represent future expenditures under purchase order and other commitments, which generally will become liabilities in future periods as goods or services are received.

Debt Service: Represents net assets available to finance future debt service payments.

b. Unreserved fund balance designations

Represent tentative plans or commitments of governmental resources.

12. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended</u>
34	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments	June 30, 2003
37	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 20 and 34.	June 30, 2003
38	Certain Financial Statement Note Disclosures	June 30, 2003
39	Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14	June 30, 2004

The impact of these statements on the Municipality's general-purpose financial statement has not yet been determined.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As of June 30, 2002 the operating transfer-out caption in the general fund disclosed excess of expenditures over appropriations in the statements of revenues and expenditures budget and actual. The excess in the expenditures categories occurred primarily due to an operational transfer to create a fund at the special revenue fund.

NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET-STATUTORY BASIS TO GAAP

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types has been prepared in accordance with GAAP and the Combined Statement of Revenues and Expenditures Budget and Actual (Budget-Statutory) General and Debt Service Fund has been prepared on the budgetary basis, which is different from GAAP.

The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Budgetary - statutory basis)	\$ 920,833
Less: Expenditures recognized in GAAP basis but not in budgetary basis	(200,737)
Revenues accrued for budget (statutory) basis and not for GAAP	(435,431)
Add: Expenditures recognized for budget (statutory) basis and not for GAAP	108,183
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 392,848</u>

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash and certificates of deposit*

The Municipality follows the practice of pooling cash of all funds except for certain state grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. The method of allocating interest earned on pooled investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Deposits were with the contracted depository bank in

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by P.R. Treasury Department in its Trust Division in the name of the depository bank.

2. Due from state governmental agencies

The Municipality's receivables from governmental agencies as of June 30, 2002 follows:

	<u>Due from</u>
Municipal Revenues Collection Center (CRIM)	\$ 205,139
Puerto Rico Electric Power Authority	<u>128,964</u>
	<u>\$ 334,103</u>

3. Due from (to) other funds

The amount presented as due from (to) other funds represent interfund transfers and/or borrowings between funds, and cash pertaining to other funds pooled in the general fund bank account.

4. Restricted asset-cash

Restricted cash balance in the special revenue and capital projects funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law (see related note D7). Interest earned by this sinking fund during the fiscal year 2001-2002 amounted to \$57,061.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

5. Property, plant and equipment

A summary of the General Fixed Assets Account group transactions follows:

	<u>Equipment</u>	<u>Real Estate</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at June 30, 2001	\$ 6,349,065	\$ 20,699,606	\$ 3,690,923	\$ 30,739,594
Additions	128,629	1,032,070	-	1,160,699
Retirements	70	-	-	70
Other adjustments	-	4,088,767	(3,690,923)	397,844
Balance at June 30, 2002	<u>\$ 6,477,624</u>	<u>\$ 25,820,443</u>	<u>\$ -</u>	<u>\$ 32,298,067</u>

6. Deferred Revenues

The amounts presented as deferred revenues in the general fund include the following:

Municipal license taxes (note D9)	\$ 2,365,605
Property Taxes (note D8)	205,139
Puerto Rico Electric Power Authority	<u>128,964</u>
	<u>\$ 2,699,708</u>

7. Long - term debts

a General obligation bonds and operational loans

The Municipality's outstanding general obligation bonds, notes and operational loans at June 30, 2002 amounted to \$14,131,000. All these bonds are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for the payment of principal and interest on the bonds. A sinking fund has been established for the bonds repayment at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

principal and interest amounts. Principal and interest payments of operational loans issued to finance operations of the general fund, if any, are made through retentions to intergovernmental revenues by the Municipal Revenue Collection Center (CRIM). A detail of the general obligation bonds, notes and operational loans as of June 30, 2002 follows:

Original Amount	Description	Maturity	Rate	Outstanding
\$ 234,000	Public Improvement Bond	January 1, 2003	5.00%	\$ 15,000
141,000	Public Improvement Bond	January 1, 2007	5.00%	46,000
293,000	Public Improvement Bond	January 1, 2008	5.00%	108,000
300,000	Public Improvement Bond	January 1, 2011	6.125%	162,000
770,000	Public Improvement Bond	July 1, 2006	Variable	300,000
880,000	Public Improvement Bond	January 1, 2016	5.00%	631,000
454,000	Public Improvement Bond	January 1, 2017	5.00%	342,000
500,000	Special Obligation Note	July 1, 2006	7.00%	100,000
150,000	Lottery Special Fund Loan	July 1, 2006	8.00%	30,000
1,145,000	Public Improvement Bond	July 1, 2008	Variable	670,000
435,000	Public Improvement Bond	July 1, 2005	Variable	165,000
105,000	Public Improvement Bond	July 1, 2010	Variable	70,000
765,000	Public Improvement Bond	July 1, 2016	Variable	640,000
1,735,000	Public Improvement Bond	July 1, 2016	Variable	1,455,000
300,000	Public Improvement Bond	January 1, 2009	4.875%	209,000
500,000	Public Improvement Bond	January 1, 2010	4.875%	418,000
1,205,000	General Obligation Bond	July 1, 2005	Variable	595,000
830,000	General Obligation Bond	July 1, 2023	Variable	775,000
1,310,000	General Obligation Bond	July 1, 2013	Variable	1,085,000
2,040,000	General Obligation Bond	July 14, 2014	Variable	1,785,000
405,000	General Obligation Bond	July 1, 2004	Variable	180,000
4,425,000	General Obligation Bond	July 1, 2026	5.00%	4,350,000
				<u>\$ 14,131,000</u>

The annual requirements to amortize general obligation bonds and operational loans outstanding as of June 30, 2002 are as follows:

June 30	Amount	
	Principal	Interest
2003	\$ 1,023,500	\$ 853,183
2004	1,091,500	825,878
2005	1,063,500	758,214

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

June 30	Amount	
	Principal	Interest
2006	858,500	694,924
2007	785,000	642,485
Thereafter	9,309,000	4,804,696
Totals	<u>\$ 14,131,000</u>	<u>\$ 8,579,380</u>

b. *Other long-term debts*

Compensated absences (note A8)	\$ 1,832,046
Municipal Revenue Collection Center (CRIM) - Prior years property tax doubtful accounts expected to be refinanced through long-term debt	992,682
Municipal Revenue Collection Center (CRIM) (note D8)	533,418
Puerto Rico Department of Labor (Unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality)	296,017
Municipal landfill obligation (note D12)	3,575
Puerto Rico Treasury Department (Social Security debt payment plan)	526
	<u>\$ 3,658,264</u>

As of June 30, 2002 the Municipality has entered into an agreement with the Municipal Revenue Collection Center (CRIM) to refinance the prior years property tax doubtful accounts, which amounted to \$992,682 on a long-term basis. It has demonstrated its intentions and its ability to consummate the transaction by an agreement with the CRIM which does not expire within one year from the date of the combined balance sheet, under the provision of Law No. 146 of October 11, 2001. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The financing agreement was authorized by the Municipal Legislature of Cabo Rojo on Resolution No. 222 of March 15, 2002. Accordingly, the amount of \$922,682 will not require the use of available financial resources and has been classified as other long-term debt.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

a. Changes in general long-term debts

	Balance at June 30, 2001	Net Additions	Net Retirements	Balance at June 30, 2002
Bonds and notes payable	\$ 10,740,500	\$ 4,425,000	\$ 1,034,500	\$ 14,131,000
Other long term debts	2,622,944	1,404,602	369,282	3,658,264
	<u>\$ 13,363,444</u>	<u>\$ 5,829,602</u>	<u>\$ 1,403,782</u>	<u>\$ 17,789,264</u>

8. Property taxes

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Commonwealth Property Tax Law. The tax levied on property is determined by the Commonwealth and the Municipal Government based on limits established by the Commonwealth Legislature. 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.

Real property is assessed by the CRIM. The tax is general assessed on January 1st on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Property taxes are recorded as revenue by the Municipality in the year of receipt.

Property taxes are recorded as revenues by the Municipality in the year of receipt. The CRIM advance funds to the Municipality based on an estimate of the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned for the repayment of the bond obligations. As part of the requirements of the Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities. This distribution includes advances of property tax and income derived from other subsidies from the state government.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

For the fiscal years 1998-99 and 1999-00 the Municipality has a net payable to the CRIM of \$259,827 and \$273,591 respectively, for a total debt balance of \$533,418 which is recorded as other long term debt in the general long term debt accounts group. The Municipality is in process to refinance this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated debt for this concept from the Municipalities of Puerto Rico. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidiary provided by the Central Government to the Municipality under the referred law. The financing agreement was authorized by the Municipal Council of Cabo Rojo on Resolution No. 2 of July 1, 2001. Under the provisions of Law No. 146 of October 11, 2001 the Municipal Legislature, through Resolution No. 222 of March 15, 2002, requested the CRIM to restructure this transaction by increasing loan term from 10 years to 30 years. As of June 30, 2002 the CRIM has not informed the Municipality of any further action regarding this matter.

For the fiscal year 2001-02 the CRIM performed a liquidation and determined that the Municipality has a net receivable of \$205,139 which is recorded as deferred revenue since it is measurable but not available as required by U.S. generally accepted accounting principles.

9. Municipal license taxes, licenses and permits

Municipal license taxes are assessed annually by the Municipality to all organizations or entity's subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1st and January 1st following April 15 filing due date), but the discount is not allowed. As required by U.S. generally accepted accounting principles, a license tax receivable and a corresponding deferred revenue for the same amount is recognized in the general fund based on taxes earned as of June 30, 2002, estimated to be collectible in year 2002-2003, but not currently available for a total amount of \$455,316. In addition, amounts collected in advance totaling \$1,910,289 and pertaining to next fiscal period are reported as deferred revenue in the General Fund. Total deferred revenue for license taxes amounts to \$2,365,605.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

10. *Intergovernmental revenues*

Intergovernmental revenues in the General Fund are comprised of subsidies received from the Commonwealth of Puerto Rico through the Municipal Revenue Collection Center and amounts received from state agencies as compensation in lieu of tax. Amount recorded in Special Revenue Fund consists of federal and state governmental grants.

11. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program. The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

The new program is a defined contribution plan, which consist of a savings account for each system participant. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes 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 System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employee's contributions (9.275% of the employee's salary) will be used to kind the current plan.

Under the new program the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

b. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600, except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>2000 Reform</u>
2002	\$ 441,278	\$ 23,924
2001	\$ 456,730	N/A
2000	\$ 423,957	N/A

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

12. Municipal Solid Waste Landfill Closure and Post Closure Care Cost

The Municipality discontinued the operation and ceased to accept solid waste in one of its two landfills. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure. The closure and post closure care procedures are being assumed by the Municipality. As guidance for calculation of total closure costs, the Municipality utilized an estimate provided by the Puerto Rico Solid Waste Disposal Authority. As of June 30, 2002 the pending estimated closure care costs amounts to \$3,575 and is recorded in the general long term debt account group. The Municipality is required to provide post closure care after the closure is completed. Total post closure care costs also has not been determined and accounted as required by U.S. generally accepted accounting principles as of June 30, 2002.

The Municipality also has a solid waste landfill, which is in operation as of June 30, 2002. The total estimate of the closure and post closure care costs of the landfill and the portion of the estimated total current cost of closure and post closure care has not been determined and recorded as required by generally accepted accounting principles as of June 30, 2002. The final effect of these matters cannot be properly determined.

NOTE E - CONTINGENCIES

1. Federal and state grants

Projects financed by federal and state grants are subject to audit in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

2. Litigation

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage on which the legal counsels have not determined an

Municipality of Cabo Rojo

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE E - CONTINGENCIAS - Continued

outcome and other cases will not be covered by insurance. In relation to settled cases not to be covered by insurance, the Municipality accrued \$27,509 in the general fund. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

NOTE F - SUBSEQUENT EVENTS

1. On October 14, 2002 the Municipal Legislature approved Ordinance No. 11 Series 2002-2003 to authorize the creation of a special fund to accrue the portion of the estimated total current cost of closure and post closure care costs of the Municipal solid waste landfill. Through this Ordinance the Finance Director is authorized to transfer from the general fund the 1.5% of income received from the administration and operation of the landfill.

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SUPPLEMENTAL INFORMATION

Municipality of Cabo Rojo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
<u>U.S. Department of H.U.D.</u>			
Major Program:			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program			
	14.228	FD - 10 AB - 10 DC - 10 AF - 10	\$ 610,981
Major Program:			
Direct Program:			
Section 8 Housing Choice Vouchers			
	14.871	N/A	308,321
			<u>919,302</u>
<u>U.S. Department of Health and Human Services</u>			
Nonmajor program:			
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant			
	93.575	2000-083 2002-023	130,020
Nonmajor program:			
Passed through the P.R. Governor Office (Oficina de Asuntos de la Vejez):			
Special Programs for the Aging_ Tittle III Part B_ Grants for for Supportive Services and Senior Centers			
	93.044	N/AV	98,987
			<u>229,007</u>
<u>U.S. Department of Justice</u>			
Nonmajor Program:			
Passed through the P.R. Department of Justice:			
Local Law Enforcement Block Grant			
	16.592	2000-LB-VX-1085	86,524
Total federal awards expenditures:			<u>\$ 1,234,833</u>

The accompanying notes are an integral part of this schedule.

Municipality of Cabo Rojo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C - PASS-THROUGH GRANTOR'S NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

Municipality of Cabo Rojo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO
THE EXPENDITURES PRESENTED IN THE GENERAL
PURPOSE FINANCIAL STATEMENTS

Description	Special Revenue Fund
14.228	\$ 610,981
14.871	308,321
93.575	130,020
93.044	98,987
16.592	86,524
Total federal awards expenditures:	\$ 1,234,833
Total state funds awards expenditures and other nonfederal expenditures:	677,523
Total expenditures, general purpose financial statements	\$ 1,912,357

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

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Cabo Rojo for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002 in which because of the inadequacy of accounting records we were unable to form an opinion regarding valuation of cash in the general and special revenue fund; due from (to) other funds between general, special revenue and capital project funds; some state and federal grants revenues and expenditures at special revenue fund; valuation and completeness of the fixed assets inventory, as recorded in the general fixed assets account group; and the Municipality has not determined and recorded an estimate for the total municipal solid waste landfill postclosure care costs, and the portion of the estimated total current costs of closure and postclosure care of other solid waste landfill, as required by U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. 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.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Cabo Rojo's general purpose financial statements are free of material misstatement, we performed test 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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as item 2002 II-2. We also noted certain immaterial instances of noncompliance that we have to report to management of Municipality of Cabo Rojo in a separate letter dated November 1, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Cabo Rojo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving 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 Municipality of Cabo Rojo'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 2002 II-1 and 2002 II-2.

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 a 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 all reportable conditions that are also considered to be material weaknesses. However, we consider items 2002 II-1 and 2002 II-2 described above to be material weaknesses. We also noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Cabo Rojo in a separate letter dated November 1, 2002.

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



Rodriguez, Lucas & Toro LLP

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A - 133**

Mayor and Municipal Legislature
Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of Municipality of Cabo Rojo 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 of Cabo Rojo's major federal programs are identified in the Summary of Auditor's Results Section 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 of Cabo Rojo's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with U.S. 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 Municipality of Cabo Rojo 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 Municipality of Cabo Rojo compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of Municipality of Cabo Rojo with Community Development Block Grants - State's Program regarding Level of Effort and Earmarking, nor were we able to satisfy ourselves as to Municipality's of Cabo Rojo's compliance with those requirements by other auditing procedures.

As described in item 2002 III-2 in the accompanying Schedule of Findings and Questioned Costs the Municipality of Cabo Rojo did not comply with requirements regarding Special Tests and Provisions of federal funds of compliance requirements applicable to Community Development Block Grants-State's Program applicable to Section 8 Housing Choice Vouchers Program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Cabo Rojo to comply with requirements applicable to those programs.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Municipality of Cabo Rojo's compliance with the requirements of Community Development Block Grants - State's Program regarding Level of Effort and Earmarking and for the noncompliance described in the fourth paragraph, the Municipality of Cabo Rojo 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 also disclosed other 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 2002 III-1 and 2002 III-3.

Internal Control Over Compliance

The management of the Municipality of Cabo Rojo is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Cabo Rojo'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 judgment could adversely affect the Municipality of Cabo Rojo's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002 III-1, 2002 III-2 and 2002 III-3.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However,

we believe that of the reportable conditions described above we consider item 2002 III-2 to be a material weakness. We also noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Cabo Rojo in a separate letter dated November 1, 2002.

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



Rodriguez, Lucon & Toro LLP

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

I. *Summary of audit results:*

Part I - Financial Statements

- | | | |
|--|--|---|
| 1. Type of audit report: | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 2. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Reportable conditions reported as a material weakness | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 4. Material noncompliance disclosed | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

Part II - Federal Awards

- | | | |
|--|--|---|
| 1. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Reportable conditions reported as a material weakness | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Type of report on compliance for major programs | <input type="checkbox"/> Unqualified opinion
<input type="checkbox"/> Adverse opinion | <input checked="" type="checkbox"/> Qualified opinion
<input type="checkbox"/> Disclaimer of opinion |
| 4. Audit findings required to be reported under Section 510(a) of Circular A - 133 | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. Major programs: | CFDA Number(s) | Name of Federal Program or Cluster |
| | 14.228 | Community Development Block Grant - State's Program |
| | 14.871 | Section 8 Housing Choice Vouchers |
| 6. Dollar threshold used to distinguish Type A and Type B programs | <input checked="" type="checkbox"/> \$300,000
<input type="checkbox"/> \$30,000,000 | <input type="checkbox"/> \$3,000,000 |
| 7. Low-risk auditee | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

II. *Findings related to the financial statements reported in accordance with GAGAS:*

Area: Accounting records and reports:

Reference number 2002 II-1

Condition and criteria:

The Municipality has not properly implemented established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4A Monthly Report, which summarizes cash transactions of all funds of the Municipality. Our tests to the report disclosed:

1. Transactions not posted or erroneously posted; certain special accounts not included.
2. There are unreconciled or significant differences between cash balances in the report with applicable bank reconciliations of General Fund current account, Child Care, Child Care (Food), Local Law, Section 8, Special programs for the Aging and Legislative Resolutions Accounts.
3. There is no reconciliation with accounting records including general ledger and subsidiary registers.
4. Several state and federal grants accounts disclosed a deficit or inappropriate balances due to excess costs charged, interfund loans or advance payments not reimbursed. A complete review of internal controls over state grants budgetary transactions is recommended to maintain accurate balances and comply with laws and regulations.

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

II. *Findings related to the financial statements reported in accordance with GAGAS:
(continued)*

Area: Accounting records and reports: (continued)

Reference number 2002 II-1

Cause and effect:

There is no proper reconciliation procedures to assure adequacy and completeness between different accounting records and reports including general ledger, obligation register, investment register, federal financial assistance program records, bank reconciliations, monthly and annual reports and other financial information maintained by state agencies including the Government Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM). As a result, we could not conclude about certain balances at the general purpose financial statements including cash in the general fund, due from (to) balances between general, special revenue and capital project fund and some state and federal grants at special revenue fund. These matters are considered a material weakness which have a direct and significant effect on the amounts recorded in the general purpose financial statements.

Recommendation:

A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, at least, the following:

- a. Review of 4A Monthly Report balances and reconciliation with cash subsidiary records (bank reconciliations and investment register).

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

II. *Findings related to the financial statements reported in accordance with GAGAS:
(continued)*

Area: Accounting records and reports: (continued)

Reference number 2002 II-1

- b. Reconciliation procedures between accounting records including general ledger and other accounting registers.
- c. Reconciliation of centralized accounting records with federal financial assistance accounting records.
- d. Reconciliation of accounts which information is maintained by state agencies including Governmental Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM).

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

II. *Findings related to the financial statements reported in accordance with GAGAS:*
(continued)

Area: Property, plant and equipment:

Reference number 2002 II-2

Condition and criteria:

As required by Municipality's internal control procedures and the Municipal Autonomous Law of 1981 as amended, the Municipality should maintain adequate records containing all transactions related to fixed assets properly reconciled with centralized accounting records and reports. Our analysis of inventory items as of June 30, 2002 showed the following:

1. There are certain real estate projects not properly valued. Costs are based on contract or estimated values and do not include other related costs such as architectural or inspection fees by engineers. Costs recorded in inventory records related to these projects can not be supported by adequate and sufficient supporting documentation.
2. Land cost related to a real estate project was not capitalized and recorded in inventory records.
3. Constructions in progress as of June 30, 2002 were not recorded in the fixed assets records nor the Municipality has maintained adequate alternative records to track for project costs during construction.

Cause and effect:

These conditions are caused since there are no adequate controls established by the Finance Department to determine and summarize costs of real estate acquisitions or constructions in order to be recorded in the fixed assets inventory

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

II. *Findings related to the financial statements reported in accordance with GAGAS:
(continued)*

Area: Property, plant and equipment:

Reference number 2002 II-2

records. As a consequence, there are valuation errors and the risk of inventory items not recorded. In addition, the carryover balance per general purpose financial statements do not reconcile with the balance reported at the Municipality's inventory records. These matters are considered a material weakness which have a direct and significant effect on the amounts recorded in the general fixed assets account group.

Recommendation:

The Finance Department should design and establish control procedures and assign specific duties to employees for the determination of real estate costs including gathering costs from different financing funds, determination of other related costs subject to capitalization, and maintenance of construction in progress costs to be recorded in the fixed assets inventory records.

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

III. Findings and questioned costs for federal awards:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-1	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Cash Management	39	\$ -	6	\$ -	3	\$ -	<p>Condition and criteria: In our examination of controls and procedures used in the administration of federal funds, we noted that for a sample of six receipts and deposits tested in three cases disbursements were made over fifteen days after related funds were deposited by State Pass-through Agency. Cash management regulations require the Municipality to minimize the time between receipt of funds and the corresponding disbursement.</p> <p>Cause and effect: Failure to appropriately follow established internal controls and procedures.</p> <p>Recommendation: The Municipality should review established controls and procedures to minimize the time lapsing between receipts and use of federal funds to procure compliance with applicable laws, regulations and federal requirements as required by State Pass-through Agency.</p>	\$ -

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

III. Findings and questioned costs for federal awards - Continued:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-2	U.S. Department of HUD Community Development Block Grant- State's Program- CFDA Number 14.228; Section 8 Housing Choice Vouchers- CFDA Number 14.871	Special tests and provisions; Level of effort or earmarking	-	\$ -	-	\$ -	-	\$ -	Condition and criteria: Our tests to verify compliance with controls over financial records and reports disclosed the following: <ol style="list-style-type: none"> 1. Revenues and expenditures transactions reported for SBGP and Section 8 programs on general ledgers maintained by the federal programs office do not reconcile with records on centralized accounting system. 2. There are significant differences between cash amounts reported in bank conciliations, program general ledgers and centralized accounting system records. 3. General ledgers maintained by the federal programs office of SBGP and Section 8 programs are not balanced. 4. Compliance by the Municipality on administrative costs limits established in the contract between the Municipality and the State Pass-through Agency for SBGP program could not be properly verified due to budgetary transfers transactions not recorded in the general ledger maintained by the federal programs office. 	\$ -

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

III. Findings and questioned costs for federal awards - Continued:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
									<p>Cause and effect: <u>There are no proper internal accounting controls over financial records and reports.</u> As a consequence, there are no reliable and complete set of accounting records and reports and we can not conclude about the valuation, presentation and disclosure of the cash, revenues and expenditures balances of SBGP and Section 8 Programs. These matters are considered a material weakness.</p> <p>Recommendation: A complete and immediate review of internal controls and procedures over financial records and reports at the federal programs office is necessary to assure accuracy of financial data and compliance with program requirements.</p>	

Municipality of Cabo Rojo

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

III. Findings and questioned costs for federal awards: (continued)

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-3	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	Reporting	26	\$ -	8	\$ -	-	\$ -	<p>Condition and criteria: The Municipality is required to submit quarterly reports to the State Pass-through Agency for the financial transactions of each of the program years of the SBGP program. Our tests to a sample of eight reports revealed the following:</p> <ol style="list-style-type: none"> 1. In six cases the reports were submitted after the required date. 2. In two cases amounts included in the reports do not agree with the general ledgers. <p>Cause and effect: There are no adequate controls procedures established for verification of amounts included in reports to the amounts included in the accounting records and for compliance with required submission dates.</p> <p>Recommendation: Federal Programs Director must establish the applicable procedures in order to comply with reporting requirements of the State Pass-through Agency.</p>	\$ -
Total questioned costs									<u>\$ -</u>	

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

<u>Fiscal year Ended June 30,</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
2001	2001 II-1	The Municipality has not properly implemented established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4A Monthly Report, which summarizes cash transactions of all funds of the Municipality.	Finding cleared by grantor (OCAM). See current year finding number 2002 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

<u>Fiscal year Ended June 30,</u>	<u>No.</u>	<u>Condition</u>	<u>Status</u>
2001	2001 II-2	The Municipality has not established adequate control procedures to assure that public improvements recorded at the real estate inventory are being correctly accounted in the fixed assets inventory.	Finding cleared by grantor (OCAM). See current year finding 2002 II-2.

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and questioned costs for federal awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2001 III-1	In our examination of controls and procedures used in the administration of federal funds, we noted that in several times cash balances exceeded the limit of \$5,000 over the period of three working days as specified by the Circular 1075 of the U.S. Department of Treasury.	Finding cleared by grantor (OCAM). See current year finding number 2002 III-1 in the accompanying Schedule of Findings and Questioned Costs.
2001	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2001 III-2	Our tests to verify compliance with controls over financial records and report disclosed that revenues and expenditures reported on SBGP program for this fiscal period do not reconcile with records on centralized accounting system. The federal program office could not provide a final expenditure or obligated balance for the fiscal period.	Finding cleared by grantor (OCAM). See current year finding number 2002 III-2 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and questioned costs for federal awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2001 III-3	Municipalities are required to request from contractors a certification stating that Entity's Principals are not suspended or debarred from doing business with state or Federal Government or this requirement may be included as a contract's clause. During our examination on three of the Municipality's contracts over \$100,000 we noted that such clauses were not included in contract nor a certification was obtained from contractors.	Finding cleared by grantor (OCAM).
2001	U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228	2001 III-4	The Performance and Evaluation Report (Closing Report) is due within 90 days after the close of its program year. During current year audit 2000-01 we noted the termination of two program year's funds but the required closing reports were not prepared or submitted to grantor.	Finding cleared by grantor (OCAM).

Municipality of Cabo Rojo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and questioned costs for federal awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
1999	U.S. Department of HUD: Section 8 Rental Certificates Program CFDA Number 14.857	1999 III-3	Our examination of twenty-eight beneficiary records disclosed several deficiencies.	Uncleared by grantor.
1999	U.S. Department of Federal Emergency Management Agency: Public Assistance Grant CFDA Number 83.544	1999 III-4	Our examination of controls and procedures related to the administration of the program disclosed several deficiencies.	Uncleared by grantor. Questioned Costs of \$35,396 remains uncleared.

**GOVERNMENT OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

CORRECTIVE ACTION PLAN

[Handwritten Signature]
20/Dic/02

Employee Designated: *[Handwritten Signature]*
Name: Nereida Seda Vargas
Position: Internal Auditor
Telephone: 787 851-1025 Ext. 344

Audit Report S/A 2001-2002 Date: December 2002
Period Audited July 1, 2001 to June 30, 2002
Certify Correct: Hon. Santos E. Padilla Ferrer - Mayor
Date: 12/20/02 *[Handwritten Signature]*

FINDING	CORRECTIVE ACTION	RESULTS
<p>Findings related to Financial Statements reported in accordance with GAGAS: Area: Accounting records and reports:</p>		
<p>2002 II-1 A) The Municipality has not properly implement established internal controls and procedures to maintain an adequate, complete and reconciled set of accounting records and reports. Our audit revealed several errors and unrecorded balances in the 4(a) monthly report, which summarizes cash transactions of all funds of the Municipality. Our tests to the report disclosed:</p> <ol style="list-style-type: none"> 1) Transactions not posted or erroneously posted. 2) There are unreconciled or significant differences between cash balances in the report with applicable bank reconciliations of General Fund current account, Child Care (Food), Local Law, Section 8, Special programs for the aging and Legislative Resolutions Accounts. 3) There is no reconciliation with accounting records including general ledger and subsidiary registers. 4) Several State and federal grants accounts disclosed a deficit or inappropriate balances due to excess cost charged, interfund loans or advance payments not reimbursed. A complete review of internal controls over state grants budgetary transactions is recommended to maintain accurate balances and comply with laws and regulations. 	<p>The Municipality will perform an immediate and complete review of controls and procedures over financial records and reports in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, the following:</p> <ol style="list-style-type: none"> a) Review of 4(a) monthly report balances and reconciliation with bank reconciliations, investment register and other financial information maintained by state agencies. b) Reconciliation procedures between accounting records including general ledger and order and contract register. c) Reconciliation procedures between accounting records with federal financial assistance records. d) An employee will be encharged of the reconciliation of the general ledger, registers, and 4A Monthly Report. e) A complete review of all the balances in the 4 (a) monthly report specialty legislative resolutions and loans from the Governmental Development Bank of Puerto Rico. 	<p>In process.</p>

Sanchez 12/20/2008

700

FINDING	CORRECTIVE ACTION	RESULTS
<p>2002 II-2-Property, plant and equipment:</p> <p>As required by Municipality's internal control procedures and the Municipality Autonomous Law of 1991 as amended, the Municipality should maintain adequate records containing all transactions related to fixed assets properly reconciled with centralized accounting records and reports. Our analysis of inventory items as of June 30, 2002 showed the following:</p> <ol style="list-style-type: none"> 1) There are certain real estate projects not properly valued. Costs are based on contract or estimated values and not include other related costs such as architectural or inspection fees by engineers. Costs recorded in inventory records related to these projects can not be supported by adequate and sufficient supporting documentation. 2) Land cost related to a real estate project was not capitalized and recorded in inventory records. 3) Constructions in progress as of June 30, 2002 were not recorded in fixed assets records nor the Municipality has maintained adequate alternative records to track for project costs during construction. 	<p>The Municipality will establish and implement necessary internal controls and procedures to assure a reliable, accurate and complete subsidiary record of all owned properties including the development of constructions, and also constructions in already progress. A report including all the disbursement vouchers of all ended projects will be send to the property custodian from the Finance Department to assure posting of correct incurred amounts and in the correct accounting period. At present the Municipality is updating the property register and will review the property register implemented by OCAM to determine if it is operated adequately. The Finance Director should assign specific duties to an employee for the determination of the real estate costs including gathering costs from different financing funds and determination of other related costs. This information will be sending to to the Office of Property and record in the inventory records.</p>	<p>In process.</p>
<p>Area: Federal Funds Findings and questioned costs</p>		
<p>2002-III-1-U.S. Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228 - Cash Management</p> <p>In our examination of controls and procedures used in the administration of federal funds, we noted that for a sample of six receipts and deposits tested in three cases disbursements were made over fifteen days after related funds were deposited by State Pass-through Agency. Cash management regulations require the Municipality to minimize the time between receipt of funds and the corresponding disbursement.</p>	<p>The Municipality will perform a complete review and analysis of the accounting cycle in the Federal Program Office to established internal controls and procedures to minimize the time between receipts and use of Federal funds and comply with applicable laws and regulations.</p>	<p>In process</p>

Sanchez 12/20/2002

745

FINDING	CORRECTIVE ACTION	RESULTS
<p>2002-III-2 US Department of HUD Community Development Block Grant-State's Program-CFDA Number 14.228; Section 8 Housing Choice Vouchers-CFDA Number 14.871- Special Tests and provisions; Level effort or earmarking</p> <p>Our tests to verify compliance with controls over financial records and reports disclosed the following:</p> <ol style="list-style-type: none">1) Revenues and expenditures transactions reported for SBGP and Section 8 programs on general ledgers maintained by the federal programs office do not reconcile with records on centralized accounting system.2) There are significant differences between cash amounts reported in bank reconciliations, program general ledgers and centralized accounting system records.3) General ledgers maintained by federal programs office of SBGP and Section 8 programs are not balanced.	<p>The Federal Programs Office will perform a complete and immediate review of all the internal controls and procedures over the financial records and reports to assure accuracy of financial data and compliance with programs requirements. Those include:</p> <ol style="list-style-type: none">1) Review of all the financial records and records and reports.2) Reconciliations procedures between accounting records and external data.3) Analysis of all the differences between cash amounts reported in bank reconciliations and program general ledger.	<p>In process.</p>

Shelley 12/20/2002

700

FINDING	CORRECTIVE ACTION	RESULTS
<p>2002-III-3 US Department of HUD Community Development Block Grant-State's Program CFDA Number 14.228</p> <p>The Municipality is required to submit quarterly reports to the State Pass-through Agency for the financial transaction of each of the program years of the SBGP program. Our tests of eight reports revealed the following:</p> <ul style="list-style-type: none">1) In six cases the reports were submitted after the required date.2) In two cases amounts included in the reports do not agree with the general ledgers.	<p>The Municipality will establish procedures to ensure the compliance with the regulations and requirements of the State Pass-through Agency.</p>	<p>In Process</p>

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02 DEC 27 AM 11:06

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FORM **SF-SAC**
(3-20-2001)

U.S. DEPT. OF COMM.- Econ. and Stat. Adm.- U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." **RETURN TO** **Federal Audit Clearinghouse**
1201 E. 10th Street
Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

<p>1. Fiscal period ending date for this submission</p> <table style="width:100%;"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> <td>Fiscal Period End Dates Must Be On or After January 1, 2001</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2002</td> <td></td> </tr> </table>	Month	Day	Year	Fiscal Period End Dates Must Be On or After January 1, 2001	06	/ 30	/ 2002		<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>	
Month	Day	Year	Fiscal Period End Dates Must Be On or After January 1, 2001							
06	/ 30	/ 2002								
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - _____ Months</p> <p>2 <input type="checkbox"/> Biennial</p>	<p>FEDERAL GOVERNMENT USE ONLY</p> <p>4. Date received by Federal clearinghouse</p>									
<p>5. Employer Identification Number (EIN)</p> <p>a. Auditee EIN: <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center;"> <tr><td>6</td><td>6</td><td>0</td><td>3</td><td>2</td><td>9</td><td>5</td><td>3</td><td>2</td></tr> </table></p> <p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p><i>If Part I, Item 5b = "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)</i></p>		6	6	0	3	2	9	5	3	2
6	6	0	3	2	9	5	3	2		

6. AUDITEE INFORMATION

a. Auditee name
MUNICIPALITY OF CABO ROJO

b. Auditee address (Number and street)
P.O. BOX 1308
City
CABO ROJO
State ZIP + 4 Code 0 0 6 2 3 -

c. Auditee contact
Name
JUAN C. PADILLA VALLE
Title
FINANCE DIRECTOR

d. Auditee contact telephone
(787) 851 - 1025

e. Auditee contact FAX (Optional)
(787) 851 - 3388

f. Auditee contact E-mail (Optional)

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name
RODRIGUEZ, RIVERA & TORO, LLP

b. Auditor address (Number and street)
P.O. BOX 1080
City
MAYAGUEZ
State ZIP + 4 Code 0 0 6 8 1 - 1 0 8 0

c. Auditor contact
Name
JOSE A. TORO CPA, CVA
Title
MANAGING PARTNER

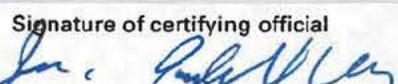
d. Auditor contact telephone
(787) 834 - 3100

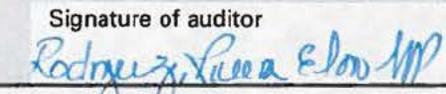
e. Auditor contact FAX (Optional)
(787) 831 - 2909

f. Auditor contact E-mail (Optional)
JTORO@RRTLIP.COM

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official: 
Date: 12 / 23 / 02
Printed Name/Title of certifying official:
JUAN CARLOS PADILLA

Signature of auditor: 
Date: 12 / 23 / 02

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input checked="" type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
1	4 .228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 610,981 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	CNGL	2002 III-1, 2002 III-2, 2002 III-3
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 308,321 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	N	2002 III-2
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 130,020 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAMS FOR THE AGING-TITLE III PART B	\$ 98,987 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1	6 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 86,524 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$ 1,234,833 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under 5 ___ .510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act
- E. Eligibility

- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds
- I. Procurement and suspension and debarment
- J. Program income

- K. Real property acquisition and relocation assistance
- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions

- O. None
- P. Other

⁴ N/A for NONE

PART I **Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.