

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CABO ROJO
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009**

Cabo Rojo

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF CABO ROJO, PUERTO RICO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2009



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GERENCIAL Y FISCAL

Cabo Rojo

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO, PUERTO RICO
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2009

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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Cabo Rojo, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Cabo Rojo, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality of Cabo Rojo, Puerto Rico's basic financial statements and have issued our report thereon dated December 16, 2009. The report on the government-wide financial statements was qualified because the Municipality of Cabo Rojo has not determined and accounted the landfill's closure and post closure care costs as it required by the accounting principles generally accepted in the United States of America. The amount by which this departure would affect the net assets of the government-wide financial statements is not reasonable determinable. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Cabo Rojo, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Cabo Rojo, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Cabo Rojo, Puerto Rico's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of Cabo Rojo, Puerto Rico's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of Cabo Rojo, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of Cabo Rojo, Puerto Rico's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-II-1 and 2009-II-2 to be significant deficiencies in internal control over financial reporting.

Internal Control Over Financial Reporting, continued

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily identify all deficiencies that are also material weaknesses. However, we believe that finding 2009-II-1 described in the accompanying schedule of findings and questioned costs is a material weakness.

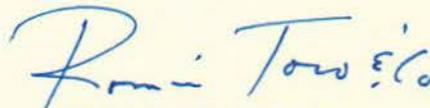
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Cabo Rojo, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality of Cabo Rojo, Puerto Rico's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Cabo Rojo, Puerto Rico's response and, accordingly, we express no opinion on it.

We also noted certain other matters that we reported to management of Municipality of Cabo Rojo, Puerto Rico in a separate letter dated December 16, 2009.

This report is intended solely for the information and use of management, Municipal Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 16, 2009

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the original of this report

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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of Cabo Rojo, Puerto Rico

Compliance

We have audited the compliance of **Municipality of Cabo Rojo, Puerto Rico** 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, 2009. Municipality of Cabo Rojo, Puerto Rico'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, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Cabo Rojo, Puerto Rico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of Cabo Rojo, Puerto Rico's compliance with those requirements.

In our opinion, Municipality of Cabo Rojo, Puerto Rico 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, 2009.

Internal Control Over Compliance

The management of Municipality of Cabo Rojo, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Cabo Rojo, Puerto Rico's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Cabo Rojo, Puerto Rico's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed in the following paragraph, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

Internal Control Over Compliance, continued

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-III-1 to be a significant deficiency.

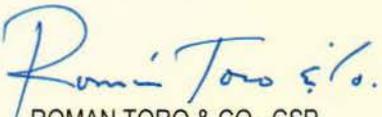
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness.

Municipality of Cabo Rojo, Puerto Rico's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Municipality of Cabo Rojo, Puerto Rico's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards and The Financial Data Schedule

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Cabo Rojo, Puerto Rico**, as of and for the year ended June 30, 2009, which collectively comprise the Municipality of Cabo Rojo, Puerto Rico's basic financial statements and have issued our report thereon dated December 16, 2009. The report on the government wide financial statements was qualified because the Municipality of Cabo Rojo has not determined and accounted the landfill's closure and post closure care costs as it required by the accounting principles generally accepted in the United States of America. The amount by which this departure would affect the net assets of the government wide financial statement is not reasonable determinable. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Municipality of Cabo Rojo, Puerto Rico's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The financial schedule data is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and the financial schedule data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, Mayor, others within the entity, Municipal Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 16, 2009

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (Note B)	Pass-Through Entity Identifying Number (Note C)	Federal Expenditures (Note A)
<u>U.S. Department of Agriculture</u>			
Passed through the P.R. Department of Education: Child and Adult Care Food Program	10.558	N/AV	\$ <u>22,137</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant - Entitlement Grants	14.218	N/A	1,163,415
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	AF - 10	370,357
Section 8 Housing Choice Vouchers	14.871	N/A	<u>482,107</u>
Subtotal U.S. Department of Housing and Urban Development			<u>2,015,879</u>
<u>U.S. Department of Transportation - National Highway Traffic Safety Administration</u>			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission): State and Community Highway Safety	20.600	09-03-58	<u>23,830</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the P.R. Governor Office (Office of Elderly Affairs): Special Programs for the Aging_ Tittle III Part B_ Grants for Supportive Services and Senior Centers	93.044	N/AV	85,922
Passed through the P.R. Department of Family - Families and Children Administration: Child Care and Development Block Grant	93.575	2009-000233	<u>117,194</u>
Subtotal U.S. Department of Health and Human Services			<u>203,116</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (Note B)	Pass-Through Entity Identifying Number (Note C)	Federal Expenditures (Note A)
<u>U.S. Department of Homeland Security</u>			
Passed through the Puerto Rico Governor Office - (Governor's Authorized Representative-GAR):			
Disaster Grants - Public Assistance	97.036	N/A	70,010
Passed through the P.R. Department of Justice:			
Homeland Security Grant Program	97.067	2004-GE-T4-0008	138,806
Passed through the Puerto Rico Governor Office - (Office of Public Safety Affairs):			
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2005-GE-TS-4009	<u>52,700</u>
Subtotal U.S. Department of Homeland Security			<u>261,516</u>
Total Expenditures of Federal Awards			<u>\$2,526,478</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

NOTE A – BASIS OF PRESENTATION

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 Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

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 ENTITY IDENTIFYING 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 the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Community Development Block Grant Fund	Other Governmental Funds
10.558	\$ -	\$ 22,137
14.218	1,163,415	-
14.228	370,357	-
14.871	-	482,107
20.600	-	23,830
93.044	-	85,922
93.575	-	117,194
97.036	-	70,010
97.067	-	138,806
97.074	-	52,700
Total federal awards expenditures	1,533,772	992,706
Total nonfederal awards expenditures	-	1,931,154
Total expenditures, fund statements	<u>\$ 1,533,772</u>	<u>\$ 2,923,860</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2009**

Line Item No.	Description	14.871
		Housing Choice Vouchers
Balance Sheet		
111	Cash - unrestricted	\$ 86,083
113	Cash - other restricted	\$ 80,926
100	Total cash	\$ 167,009
121	Accounts receivable - PHA projects	\$ 406
122	Accounts receivable - HUD other projects	\$ 1,567
128	Fraud recovery	\$ 13,807
128.1	Allowance for doubtful accounts - fraud	\$ (4,504)
120	Total receivables, net of allowance for doubtful accounts	\$ 11,276
150	Total Current Assets	\$ 178,285
164	Furniture, equipment and machinery - administration	\$ 29,041
166	Accumulated depreciation	\$ (11,954)
160	Total capital assets, net of accumulated depreciation	\$ 17,087
180	Total Non-current Assets	\$ 17,087
190	Total Assets	\$ 195,372
322	Accrued compensated absences - current portion	\$ 4,416
347	Inter-program - due to	\$ 1,200
310	Total Current Liabilities	\$ 5,616
354	Accrued compensated absences - non current	\$ 4,240
350	Total Non-current Liabilities	\$ 4,240
300	Total Liabilities	\$ 9,856
508.1	Invested in Capital Assets, Net of Related Debt	\$ 17,087
511.1	Restricted Net Assets	\$ 80,926
512.1	Unrestricted Net Assets	\$ 87,503
513	Total Equity/Net Assets	\$ 185,516
600	Total Liabilities and Equity/Net Assets	\$ 195,372

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2009**

Line Item No.	Description	14.871	
		Housing Choice Vouchers	
Income Statement			
70600-010	Housing assistance payments	\$	409,216
70600-020	Ongoing administrative fees earned	\$	72,891
70600	HUD PHA operating grants	\$	482,107
71400-010	Housing Assistance Payment	\$	918
71400-020	Administrative Fee	\$	918
71400	Fraud recovery	\$	1,836
71500	Other revenue	\$	32,933
700	Total Revenue	\$	516,876
91100	Administrative salaries	\$	38,553
91500	Employee benefit contributions- administrative	\$	10,307
91600	Office expenses	\$	1,787
91000	Total Operating - Administrative	\$	50,647
962	Other General Expenses	\$	6,221
96210	Compensated absences	\$	31
96000	Total Other General Expenses	\$	6,252
96900	Total Operating Expenses	\$	56,899
97000	Excess Revenue Over Operating Expenses	\$	459,977
97300-050	All Other	\$	407,248
97300	Housing assistance payments	\$	407,248
97350	HAP Portability-in	\$	27,846
97400	Depreciation expense	\$	5,042
900	Total Expenses	\$	497,035
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$	19,841

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE
BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION
JUNE 30, 2009**

Line Item No.	Description	14.871	
		Housing Choice Vouchers	
11030	Beginning equity	\$	165,675
11770-001	Administrative Fee Equity - Beginning Balance	\$	87,635
11170-010	Administrative Fee Revenue	\$	72,891
11170-045	Fraud Recovery Revenue	\$	918
11170-050	Other Revenue	\$	32,933
			This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$5,087) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 08-09 (\$27,846).
11170-051	Comment For Other Revenue		
11170-060	Total Admin Fee Revenues	\$	106,742
11170-080	Total Operating Expenses	\$	56,899
11170-090	Depreciation	\$	5,042
11170-095	Housing Assistance Portability In	\$	27,846
11170-110	Total Expenses	\$	89,787
11170-002	Net Administrative Fee	\$	16,955
11170-003	Administrative Fee Equity - Ending Balance	\$	104,590
11170	Administrative Fee Equity	\$	104,590
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$	78,040
11180-010	Housing Assistance Payments Revenues	\$	409,216
11180-015	Fraud Recovery Revenue	\$	918
11180-030	Total HAP Revenues	\$	410,134
11180-080	Housing Assistance Payments	\$	407,248
11180-100	Total Housing Assistance Payments Expenses	\$	407,248
11180-002	Net Housing Assistance Payments	\$	2,886
11180-003	Housing Assistance Payments Equity - Ending Balance	\$	80,926
11180	Housing Assistance Payments Equity	\$	80,926
11190-210	Total ACC HCV Units		1,284
11190	Unit Months Available		1,284
11210	Unit Months Leased		1,263

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**

**NOTE TO SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE**

June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC), as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as supplementary information to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

• Significant control deficiency identified? Yes None reported

• Material weakness (es) identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

• Significant control deficiency identified? Yes None reported

• Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Any audit finding disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grants
14.228	Community Development Block Grant – State Grant
14.871	Section 8 – Rental Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS

2009-II-1

Type of finding: Financial statement.
Situation: Control deficiency; Compliance of federal, state and local regulations
Federal Program: Not applicable.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: Not applicable.

Condition:

The Municipality of Cabo Rojo has not determined and accounted for its municipal solid waste landfills' estimated closure and post closure care costs and their respective provisions for financial assurance as of June 30, 2009.

Context:

The Municipality is currently responsible for two municipal solid waste landfills (MSWLFs), one which has ceased to accept solid waste material and another which continues in operation, as of June 30, 2009. The Municipality could not provide us with any documentation or evidence relating to estimates of closure and post-closure care costs related to the two MSWLFs, or any plans or estimates for the required financial assurance for these current and future cost activities.

Criteria:

40 CFR 258, EPA Criteria For Municipal Solid Waste Landfills, requires the Municipality to have a detailed written estimate, in current dollars, of the cost of hiring a third party to (1) close the largest area of all its MSWLF units ever, requiring a final cover at any time during the active life in accordance with the closure plan (40 CFR 258.71), and (2) conduct post-closure care for all its MSWLF units, in compliance with the Municipality's post-closure plan (40 CFR 258.72), which must be conducted for 30 years (40 CFR 258.61).

GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs, requires the Municipality to disclose the nature and source of MSWLF closure and post-closure care requirements, the nature of closure and post-closure care estimates, the reported liability at the balance sheet date, the estimated total closure and post-closure care cost remaining to be recognized, the percentage of MSWLF capacity used to date, and the estimated remaining MSWLF life in years. The Municipality is also required to disclose how closure and post-closure care financial assurance requirements are being met.

Cause:

The Municipality's management represented to us that these estimates were unavailable and had not been prepared for the financial statements as of June 30, 2009.

Effect:

For the fiscal year ended June 30, 2009, the Municipality's financial statements did not account or disclose required contingency amounts related to landfill closing and post-closing costs required by generally accepted accounting principles. Therefore, the auditor's opinion on the Municipality's financial statements as of June 30, 2009 was qualified.

Auditor's Recommendation:

The Municipality should estimate its landfills' closure and post closure care costs and their respective provisions for financial assurance, and account and disclose in its financial statements in order to comply with federal and local regulations as well as generally accepted accounting principles.

Views of responsible officials and corrective actions:

The Municipality will request the third-party service company currently administering the landfill to conduct a study to determine the estimated closure and post-closure care costs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

2009-II-2

Type of finding: Financial statement.
Situation: Control deficiency; Compliance of local regulations
Federal Program: Not applicable.
Compliance Requirements: Not applicable.
Prior-Year(s) Audit Finding(s): None.
Questioned Costs: Not applicable.

Condition:

The Municipality has accepted, processed, and filed Volume of Business Tax returns without the required sworn statement by the taxpayer required by local regulations.

Context:

Our substantive audit tests and tests of internal controls over Volume of Business Tax revenues revealed that four (4) out of fifteen (15) Volume of Business Tax returns selected, totaling \$121,168 in Volume of Business Tax revenues, did not include the aforementioned oath certification.

Criteria:

Chapter X, Section 6 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner's Office for Municipal Affairs (OCAM) requires the Municipality to accept Volume of Business Tax returns only if (1) they include a sworn statement by the taxpayer which is notarized or reviewed, and (2) for those taxpayers whose gross earnings exceed \$1 million, if they are accompanied by independently audited financial statements. The regulatory manual continues to state that Volume of Business Tax returns submitted without those two requirements, where applicable, are to be considered not filed with the Municipality.

Cause:

The Municipality's employees accepted the tax returns during the busiest collection period of the Municipality's fiscal year, and did not ascertain the completeness of such returns.

Effect:

The Municipality accepted and filed tax returns which were incomplete and non-compliant with local regulations, and lost one of the legal remedies available to the Municipality to charge fraudulent taxpayers in court for false sworn statements in case of fraudulent tax reporting.

Auditor's Recommendation:

The Municipality should instruct its collection officers to reject incomplete and non-compliant Volume of Business Tax returns in order to ensure compliance with local regulations. Additionally, the Municipality's collection officers can require the taxpayer to certify the tax return and substitute a public notary in completing the certification process, as authorized by the regulatory manual in the mentioned chapter and section, and should do so in cases of incomplete tax returns.

Views of responsible officials and corrective actions:

The Municipality requested and obtained the notarized forms from the taxpayers, and instructions were issued to all personnel carrying out these tasks to assure the avoidance of this situation in future years.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-III-1

Type of finding: Federal Award.

Situation: Control deficiency.

Federal Program: Section 8 Housing Choice Voucher Program (CFDA 14.871)

Compliance Requirements: Not applicable.

Prior-Year(s) Audit Finding(s): None.

Questioned Costs: None.

Condition:

The Municipality does not void check payments from its Section 8 program bank account which have not been cancelled and collected by the payees for a significant period of time.

Context:

Our audit tests revealed that the Section 8's bank account had 74 checks emitted and outstanding but not yet cancelled by the payees as of June 30, 2009 totaling \$11,139.94. These checks had been emitted and remained outstanding, as of June 30, 2009, for a period ranging from 266 days to 9½ years.

Criteria:

The Municipality is required to maintain adequate internal controls to safeguard its most essential asset, cash. Article 6.005(c) and (f) of Law 81 of August 31, 1991, also known as the Autonomous Municipalities Law, states that the Municipality's accounting system should provide complete and adequate information about its results of operations and its cash flows. It also adds in Article 8.010(c) and (d) that internal controls should be implemented to reduce the likelihood of irregularities.

Cause:

The Municipality did not complete its reconciling procedures, which should have included reverting the checks, recording a liability awaiting payee reclamation, and cancelling the checks via stop payment orders to the bank in order to minimize the risks of theft, loss, and fraud. Additionally, the Municipality did not conduct proper follow-up procedures of such payments, inquiring the respective payees as to why they had yet to cancel and collect their payments.

Effect:

The situations described above increase the risk of loss or misappropriation of cash, an essential asset to the Municipality's and the federal program's operations.

Auditor's Recommendation:

The Municipality should implement sufficient internal controls to properly account for and minimize instances of check payments which have been outstanding for a significant amount of time, preferably no longer than 6 months, in order to minimize the risks of misappropriation. Additionally, the Municipality should implement controls consisting of contacting payees of old outstanding checks to assure that payments are collected and cancelled promptly.

Views of responsible officials and corrective actions:

The Section 8 accountant canceled all outstanding checks in question and adjusted the accounting records accordingly. Instructions have been sent to Section 8 payees to claim their payments within 60 days after the receipt of payment, otherwise the payments will be canceled and they will have to reclaim the payment at the Municipality's offices.

END OF SECTION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Year	Finding Number	Finding	CFDA Number	Questioned Cost(s)	Comments
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(1) Prior Audit Findings, fully corrected or not noted during our audit:

None.

(2) Prior Audit Findings, not corrected or partially corrected:

None.

(3) Corrective action taken is significantly different from corrective action previously reported:

None.

(4) Prior Audit Findings, are no longer valid:

None.

END OF SCHEDULE
