

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

MUNICIPIO DE CAMUY
AUDITORIA 2002-2003
30 DE JUNIO DE 2003

OFIC. DEL GOBIERNO
DE ASESORES FISCALIALES
04 JAN 27 AM 8:14
RECIBIDO
UNIDAD DE CORREO

Call #04-519

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL	
Independent Auditor's Report on Financial Statements	1-2
Financial Statements:	
Combined Balance Sheet - All Fund Governmental Types and Account Groups	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5-6
Combined Statement of Revenues and Expenditures - Budget and Actual - General Fund and Debt Service Fund	7
Notes to Combined Financial Statements	8-28
Schedule of Expenditures of Federal Awards	29-30
Note to Schedule of Expenditures of Federal Awards	31
PART II - INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32-33
Schedule of Reportable Conditions and Recommendations	34-38

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART III - COMPLIANCE	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	39-41
Schedule of Findings and Questioned Costs	42-49
Schedule of Findings and Questioned Costs for the Prior Fiscal Year	50-54
PART IV - EXHIBIT	
I. Corrective Action Plan	

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Municipality of Camuy, as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Camuy' management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as described in the following paragraphs, 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. Those standards 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 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.

As described in Note 6, the Municipality of Camuy has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance or such all group amounting to \$11,487,220.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Camuy as of June 30, 2003, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2003, 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 read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements 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, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

San Juan, Puerto Rico
November 5, 2003

Ortiz, Rodriguez, Rivera & Co.

The stamp 1908303 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
COMBINED BALANCE SHEET-ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2003**

<u>Assets</u>	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Cash in bank (Note 2)	\$ -	\$ 516,858	\$ -	\$ -	\$ -	\$ -	\$ 516,858
Cash with fiscal agent (Note 2)	3,050		314,630	21,744			339,424
Accounts receivables:							
Due from other agencies (Note 7)	1,328,529	73,872					1,402,401
Due from other funds (Note 8)		3,513,451					3,513,451
Property and equipment (Note 6)					11,487,220		11,487,220
Amount available in debt service fund (Note 2)						314,630	314,630
Amount to be provided for retirement of general long-term debt						4,343,865	4,343,865
Amount to be provided through property tax collected for payment of related property tax advances (Note 10)						1,026,945	1,026,945
Amount to be provided for payment of Puerto Rico Health Insurance Administration						940,626	940,626
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						1,272,522	1,272,522
Total assets	\$ 1,331,579	\$ 4,104,181	\$ 314,630	\$ 21,744	\$ 11,487,220	\$ 7,898,588	\$ 25,157,942

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
COMBINED BALANCE SHEET-ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2003**

Liabilities and Fund Equity	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Liabilities							
Bank overdraft	\$ 54,155	\$ -	\$ -	\$ 1,608	\$ -	\$ -	\$ 55,763
Account payable and accrued liabilities	316,799	83,848					400,647
Due to other funds (Note 8)	3,513,451	-					3,513,451
Due to other agencies (Note 9)	2,956,097	27,911					2,984,008
General obligations:							
Bonds			190,000				190,000
Interest			69,749				69,749
Deferred revenues:							
Municipal license tax (Note 4)	392,538						392,538
Federal government		155,856					155,856
Due to Puerto Rico Health Insurance Administration (Note 10)						940,626	940,626
Accrued vacations and sick leave (Note 1)						1,272,522	1,272,522
General long-term debts (Note 10)						4,658,495	4,658,495
Property tax advance (Note 10)						1,026,945	1,026,945
Claims and judgements (Note 12)	10,500						10,500
Total liabilities	7,243,540	267,615	259,749	1,608	-	7,898,588	15,671,100
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity							
Investment in general fixed assets					11,487,220		11,487,220
Fund balance							
Reserved for encumbrances	26,951						26,951
Designated for capital additions				20,136			20,136
Debt service			54,881				54,881
Undesignated (deficit) equity	(5,938,912)	3,836,566					(2,102,346)
Total fund equity (deficit)	(5,911,961)	3,836,566	54,881	20,136	11,487,220	-	9,486,842
Total liabilities and fund equity	\$ 1,331,579	4,104,181	\$ 314,630	\$ 21,744	\$ 11,487,220	\$ 7,898,588	\$ 25,157,942

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE (DEFICIT) - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 1,903,875	\$ -	\$ 325,185	\$ -	\$ 2,229,060
Municipal license taxes (Note 4)	593,039				593,039
Licenses and permits	426,528				426,528
Charges for service and rents	32,473				32,473
Inter-governmental revenues (Note 5):					
Federal grants and contributions		2,401,719			2,401,719
State contributions	4,564,971				4,564,971
Interest, fines, and penalties	12,961		2,709		15,670
Other revenues	514,653				514,653
Total revenues	8,048,500	2,401,719	327,894	-	10,778,113
EXPENDITURES					
Municipal council	116,402				116,402
Offices:					
Administrative Services	572,071				572,071
Mayor	468,781				468,781
Departments:					
Civil Defense	312,883				312,883
Finance	2,665,321				2,665,321
Health	353,796				353,796
Public Works	1,952,788				1,952,788
Recreation	346,418				346,418
Personnel	152,470				152,470
Capital outlays		961,510		432,912	1,394,422
Collection of property taxes applied to advances (Note 15)	1,361,618				1,361,618
Secretary	97,300				97,300
Welfare	554,620	1,590,864			2,145,484
General government	688,745				688,745

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE (DEFICIT) - ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 448,097	\$ -	\$ 448,097
Interest payments (Note 10)			251,284		251,284
Total expenditures	<u>9,643,213</u>	<u>2,552,374</u>	<u>699,381</u>	<u>432,912</u>	<u>13,327,880</u>
Deficiency of revenues over expenditures	<u>(1,594,713)</u>	<u>(150,655)</u>	<u>(371,487)</u>	<u>(432,912)</u>	<u>(2,549,767)</u>
OTHER FINANCING SOURCES (USES)					
Advances of property taxes (Note 3)	1,361,618				1,361,618
Operating transfer-in	124,034		322,990		447,024
Operating transfer-out	<u>(322,990)</u>		<u>(124,034)</u>		<u>(447,024)</u>
Total other financing sources	<u>1,162,662</u>	<u>-</u>	<u>198,956</u>	<u>-</u>	<u>1,361,618</u>
Deficiency of revenues and other sources over expenditures	<u>(432,051)</u>	<u>(150,655)</u>	<u>(172,531)</u>	<u>(432,912)</u>	<u>(1,188,149)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 16)	<u>(5,479,910)</u>	<u>3,987,221</u>	<u>227,412</u>	<u>453,048</u>	<u>(812,229)</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (5,911,961)</u>	<u>\$ 3,836,566</u>	<u>\$ 54,881</u>	<u>\$ 20,136</u>	<u>\$ (2,000,378)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
COMBINED STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL- GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
REVENUES (Notes 1 and 15)						
Property taxes	\$ 1,784,299	\$ 1,764,172	\$ (20,127)	\$ 446,019	\$ 325,185	\$ (120,834)
Municipal license taxes	350,000	593,039	243,039			
Licenses and permits	330,300	426,528	96,228			
Charges for service and rents	15,000	32,473	17,473			
Inter-governmental revenues:						
State contributions	4,602,920	4,564,971	(37,949)			
Interest, fines, and penalties	31,500	12,961	(18,539)		2,709	2,709
Other revenues	2,012,000	36,241	(1,975,759)			
Total revenues	<u>9,126,019</u>	<u>7,430,385</u>	<u>(1,695,634)</u>	<u>446,019</u>	<u>327,894</u>	<u>(118,125)</u>
EXPENDITURES (Notes 1 and 15)						
Municipal council	140,991	116,402	24,589			
Offices:						
Administrative Services	573,948	572,071	1,877			
Mayor	512,165	468,781	43,384			
Departments:						
Civil Defense	313,021	312,883	138			
Finance	4,135,541	2,821,222	1,314,319			
Health	353,796	353,796	-			
Public Works	1,943,948	1,952,788	(8,840)			
Recreation	347,926	346,418	1,508			
Personnel	152,470	152,470	-			
Secretary	97,593	97,300	293			
Welfare	554,620	554,620	-			
Debt service; principal and interest payment				446,019	497,511	(51,492)
Total expenditures	<u>9,126,019</u>	<u>7,748,751</u>	<u>1,377,268</u>	<u>446,019</u>	<u>497,511</u>	<u>(51,492)</u>
Deficiency of revenues over expenditures	<u>\$ -</u>	<u>\$ (318,366)</u>	<u>\$ (318,366)</u>	<u>\$ -</u>	<u>\$ (169,617)</u>	<u>\$ (169,617)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Camuy, Puerto Rico (Municipality) was founded in 1807. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

b. Summary of Significant Accounting Policies

The accounting policies of the Municipality are in accordance with accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the most significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Municipality has established the following fund types and account groups:

a) Governmental Fund Type

i. General Fund

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

ii. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. 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, interest, and related costs.

iv. 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 (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b) **Fiduciary Funds**

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c) **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:

i. **General Fixed Assets Account Group**

This group of accounts is established to account for all fixed assets of the Municipality.

ii. **General Long-term Debt Account Group**

This group of account is established to account for all long-term debts of the Municipality.

d) **Budgetary Control:**

The Mayor submits and the Municipal Legislature approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. **General Fund appropriations for recurrent and ordinary functions of the Municipality.**

ii. **Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

**Scope of Public Service
Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Camuy indicate that the reporting entity consists of all funds and accounts groups included in the combined

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

10) Claims and Judgements

The estimated amount of the liability for claims and judgements, which is due on demand such as from adjudicated or settled claims, is recorded in the general fund. The general long term debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

11) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenue and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

12) Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2003-04
37	Reporting Model Omnibus	2003-04

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
38	Note Disclosures	2003-04
39	Determining Whether Certain Organizations are Components Units	2003-04
40	Deposit and Investment Risk Disclosure	2004-05
41	Budgetary Comparison Schedules - Perspective Differences	2003-04
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

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

2. CASH AND SHORT-TERM INVESTMENTS

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in a bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Banco Popular de Puerto Rico	<u>\$844,533</u>	<u>\$100,000</u>	<u>\$744,533</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b. Cash with Fiscal Agent

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2003, the balance of cash retained by the Government Development Bank amounted to \$314,630.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2003, the balance of cash retained by the Government Bank available for the acquisition and construction of major capital facilities amounted to \$24,794.

3. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The rates are 8.18% for real property and 6.18% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.10%	4.10%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>8.18%</u>	<u>6.18%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amount that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. The total advances from CRIM presented in the general long-term debt account group amounted to \$1,026,945 (See Note 10).

4. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2003. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Camuy, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Camuy are as follows:

Savings and loans associations	=	1.50%
Financing institution	=	1.50%
Other organizations	=	.30%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$392,538, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Puerto Rico Water and Sewer Authority, the Puerto Rico Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

6. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department is in the process of update these records in order to maintain a proper system.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$ 6,340,497
Vehicles, equipment, and furniture	<u>5,146,723</u>
Total general fixed assets	<u>\$11,487,220</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Puerto Rico Electric Power Authority	\$1,064,792	\$ -
Municipal Revenues Collection Center	263,737	-
Commissioner Office of Municipal Affairs	<u>-</u>	<u>73,872</u>
	<u>\$1,328,529</u>	<u>\$73,872</u>

8. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

The due from and due to other fund balances as of June 30, 2003, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund		
Special Fund	\$ -	\$3,513,451
Special Revenue Fund		
General Fund	<u>3,513,451</u>	<u>-</u>
	<u>\$3,513,451</u>	<u>\$3,513,451</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

9. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>	<u>Special Revenue</u>
Puerto Rico Water and Sewer Authority	\$ 46,279	\$ -
Puerto Rico Electric Power Authority	1,025,764	
General Service Administration	9,410	
Employee's Retirement System	204,883	
Internal Revenue Service	464,207	
Puerto Rico Telephone Company	146,958	
Municipality of Arecibo	275,000	
Municipality of Moca	283,555	
Treasury Department	500,041	
Section 8 (HUD)	<u>-</u>	<u>27,911</u>
	<u>\$2,956,097</u>	<u>\$27,911</u>

10. GENERAL LONG-TERM DEBTS

The general long-term debts' transactions as of June 30, 2003 are as follows:

Balance July 1, 2002	\$4,986,966
Adjustment	(190,000)
Additions for the year	1,336,572
Payments	(<u>448,098</u>)
Balance June 30, 2003	<u>\$5,685,440</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

General long-term debt obligations at June 30, 2003 are as follows:

Bonds

\$180,000 series of 1983, payable in annual installments of \$45,000 to \$11,000 until January 1, 2005, interest at 5%.	\$ 22,000
\$280,000 series of 1995, payable in annual installments of \$10,000 to \$40,000 until July 1, 2019, interest at 5.25%.	238,000
\$350,000 series of 1995, payable in annual installments of \$10,000 to \$40,000 until July 1, 2009, with interest ranging from 7.25% to 4.7%.	190,000
\$310,000 series of 1995, payable in annual installments of \$7,000 to \$23,000 until January 1, 2020, interest at 5.125%.	268,000
\$125,000 series of 1996, payable in annual installments of \$5,000 to \$10,000 until July 1, 2015, with interest ranging from 6.630 to 6.580%.	90,000
\$305,000 series of 1997, payable in annual installments of \$25,000 to \$45,000 until July 1, 2006, with interest ranging from 6.69% to 8%.	125,000
\$505,000 series of 1999, payable in annual installments of \$35,000 to \$65,000 until July 1, 2008, interest at 7.50%.	295,000
\$1,675,000 series of 2002, payable in annual installments of \$25,000 to \$145,000 until July 1, 2026, interest at 7.50%	1,625,000
\$445,000 series of 2002, payable in annual instalments of \$45,000 to \$80,000 until July 1, 2008, interest at 6.50%.	350,000
	<u>3,203,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Note Payable

\$400,000 series of 1997, payable in annual installments of \$40,000 to \$60,000, until July 1, 2016; interest at 8%. \$ 315,000

Other Long-term Debts

CRIM - Property Advances 1,026,945

Payment plan with Department of Labor payable in monthly installments of \$2,413, until April 2005. 53,879

Payment plan with Puerto Rico Water and Sewer Authority payable in monthly installments of \$6,000, until July 2005. 156,000

Payment plan with Treasury Department payable in monthly installments of \$28,200, until January 2006. 930,616

2,167,440

\$5,685,440

The annual requirements for the amortization of general long-term debt at June 30, 2003, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2004	\$ 789,265
2005	723,524
2006	479,354
2007	271,137
2008	282,197
2009-2013	652,335
2014-2018	832,614
2019-2023	755,296
2024-2028	679,068
2029-2033	<u>220,650</u>
	<u>\$5,685,440</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

As described in Note 3, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

Due to Puerto Rico Health Insurance Administration (ASES)

Due to the Puerto Rico Health Insurance Administration of \$940,626 represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

11. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. ERS was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and the contributions actually made for the year ended June 30, 2003 was \$218,435. The Municipality's payroll for employees covered by ERS was \$2,355,094. The Municipality total payroll for all employees was \$4,053,919.

c. Trend Information

Additional information of ERS is presented in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from ERS, Minillas Station, P.O. Box 42003, San Juan, Puerto Rico 00940.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

12. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

13. COMMITMENTS

The Municipality of Camuy had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$1,511,924.

14. LEASES

Leasing arrangements with the Municipality as lessor are as follows:

- a. Total income from leases during the year ended June 30, 2003 was approximately \$32,473.
- b. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

15. BUDGETARY COMPARISONS

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles generally accepted in the United States of America.

The principal difference between budgetary basis and GAAP, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by GAAP.
- c. Under GAAP, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the GAAP to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$8,048,500	\$9,643,213
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	26,591
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	(92,680)
Plus advances of property taxes recorded as revenue on the budgetary basis	1,361,618	-
Plus transfer in/out	124,034	322,990

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Revenues</u>	<u>Expenditures</u>
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(\$1,625,355)	(\$1,361,618)
Non-budgeted funds	(<u>478,412</u>)	(<u>688,745</u>)
Budgetary basis	<u>\$7,430,385</u>	<u>\$7,748,751</u>

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

The Municipality budget is amended by the majority vote of the Municipal Legislature. Said amendments are included in the budgetary basis.

16. BEGINNING FUND BALANCE RESTATEMENT

Beginning fund balances of general fund and debt service fund have been restated by accounting adjustments for accounting errors detected during the fiscal year that affect the fund balances of these governmental funds as follows:

	<u>General Fund</u>	<u>Debt Service</u>
Beginning fund balance (deficit), as previously reported	(\$5,395,059)	\$484,247
Understatement of accounts payable	(<u>84,851</u>)	(<u>256,835</u>)
Beginning fund balance (deficit), as restated	<u>(\$5,479,910)</u>	<u>\$227,412</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct programs:		
Section 8-Rental Voucher Program	14.855	\$ 688,002
Pass-through State - Commissioner Office of Municipal Affairs		
Community Development Block Grant-State Program SBGP	14.228	<u>736,901</u>
		<u>1,424,903</u>
U.S. Department of Agriculture		
Pass-through PR Department of Education Child and Adult Care Food Program	10.558	<u>35,166</u>
Subtotal U.S. Department of Agriculture		<u>35,166</u>
U.S. Department of Transportation		
Pass-through PR Highway Authority Federal Transit Capital Improvement Grants	20.500	<u>21,330</u>
Subtotal U.S. Department of Transportation		<u>21,330</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Regional Elderly Office Special Program for Aging, Title III, Part C, Nutrition Services	93.045	5,181
Pass-through Administration of Families and Children		
Child Care and Development Block Grant	93.575	<u>388,262</u>
Subtotal U.S. Department of HHS		<u>393,443</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Justice		
COPS Hiring Program	16.711	\$ <u>216,004</u>
Subtotal U.S. Department of Justice		<u>216,004</u>
TOTAL		<u>\$2,090,846</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Camuy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Total federal expenditures per schedule	\$2,090,846
Total non-federal expenditures accounted for the Special Revenue Fund of the General Purpose Financial Statements	<u>461,528</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>\$2,552,374</u>



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Municipality of Camuy as of and for the year ended June 30, 2003, and have issued our report thereon dated November 5, 2003, which was qualified because insufficient audit evidence exists to support Municipality of Camuy's disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, 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.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Camuy'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 the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Camuy's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items 1 and 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 general purpose 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 matters reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Camuy, in a separate letter dated November 5, 2003.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

San Juan, Puerto Rico
November 5, 2003

The stamp 1908304 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. ACCOUNTING SYSTEM

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system only provides for the recording of revenues, expenditures, certain balance sheet accounts and a limited number of other transactions. Therefore, the general purpose financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debits and credits). As a result the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with generally accepted accounting principles.

There were significant differences between the records kept at the accounting department and those for the federal programs. Financial reports for all fund types showing the financial position and results of operations following generally accepted accounting principles are only prepared at the time of the annual audit.

The Municipality does not maintain adequate records of outstanding long-term obligations. The practice is to rely upon the notification received from the Government Development Bank for Puerto Rico or the Federal Government for the balance of its outstanding debt and the withholdings for its debt service.

The continued failure to have an adequate accounting system prevents the Municipality from having current, accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

The situation also heightens the possibility of significant financial reporting problems and delays in reporting when the Municipality must implement the requirements of Statement of Governmental Accounting Standards No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*", ("GASB 34"). This Statement is applicable to the Municipality's fiscal year June 30, 2004 financial statements. Failure to prepare and meet this

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF REPORTABLE CONDITIONS AND
RECOMMENDATIONS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

requirement may significantly affect our auditors' report on the general purpose financial statements in the near future.

In summary, the current accounting system does not comply with the requirements established in Article 8.010, Sections (b) and (c) of the Municipalities Law. These sections provide the following:

Section (b) - Municipal accounting shall be kept by funds and in conformity with generally accepted accounting principles and the requirements established by the Governmental Accounting Standards Board. Also, it should be based on the pronouncements of the National Committee on Governmental Accounting and the book Governmental Accounting, Auditing and Financial Reporting. This publication should serve as the basis for designing the accounting practices and policies to allow for the preparation of the general-purpose financial statements.

Section (c) - The accounting system should provide:

- a) the complete results of the Municipal operations,
- b) the proper and necessary financial information for the efficient administration of the Municipality,
- c) effective controls and the accountability of all the funds, property and other municipal assets,
- d) information necessary for the preparation of accurate financial reports, that could be used in the preparation of the municipal budget.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF REPORTABLE CONDITIONS AND
RECOMMENDATIONS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Recommendation

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the ledger, as well as the preparation of year-end financial statements in accordance with generally accepted accounting principles. This plan should provide for:

- assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of GASB 34,
- the implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds,
- the preparation of periodic financial reports to be submitted to the Mayor, the Finance Director, the Municipal Legislature and all other interested entities,
- adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency,
- reconciliation of financial records with the reports prepared and submitted to the federal government.

2. FIXED ASSETS

The Municipality does not have an effective system to account for fixed assets. There are no controls in place to assure that all property expenditures which should be capitalized or property dispositions are recorded in the fixed assets subsidiary ledger. Procedures are not in place to require that real property acquired with federal and local funds be recorded in the property subsidiary ledger or that any property sales and dispositions be accounted for in the fixed assets subsidiary ledger.

This condition occurs because there are no established procedures to prepare the adjustments necessary to record these transactions in the fixed assets subsidiary ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF REPORTABLE CONDITIONS AND
RECOMMENDATIONS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible to safeguard and be accountable for its fixed assets (both real and personal property).

Chapter VII, Sections 3, 4, 14, 15 and 21 of the Basic Standards, establishes the following guidelines regarding property management:

Section 3 establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

Section 4 establishes that the Municipality Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

Section 14(1) establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

Section 15(1) establishes that the Property Department Director is responsible for accurately maintaining the central property records.

Section 21(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

The continued failure to have accurate and complete property records has resulted in a disclaimer with respect to the general fixed assets account group. Under the requirements of Statement 34 this can result in a disclaimer of opinion of the entity wide statements. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets. The value of federally funded property that may be lost would need to be repaid to the federal government with local funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF REPORTABLE CONDITIONS AND
RECOMMENDATIONS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Recommendation

The Property Division must require each division that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

The Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal funds offices, such as Housing and Urban Development (HUD).



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

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

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

Compliance

We have audited the compliance of Municipality of Camuy 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, 2003. Municipality of Camuy'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 Camuy's management. Our responsibility is to express an opinion on Municipality of Camuy'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 Camuy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Camuy's compliance with those requirements.

As described in item 03-1, 03-3 and 03-6 in the accompanying schedule of findings and questioned costs, did not comply with requirements regarding Eligibility and Special Test that are applicable to its Section 8 Program. Compliance with such requirements is necessary, in our opinion, for Municipality of Camuy, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Municipality of Camuy 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, 2003.

Internal Control over Compliance

The management of Municipality of Camuy 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 Municipality of Camuy' 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 in 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 Municipality of Camuy ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-2, 03-4, and 03-5.

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 the 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 none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

San Juan, Puerto Rico
November 5, 2003

The stamp 1908305 was affixed
to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Camuy.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Camuy were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Camuy express an unqualified opinion, except for Section 8 Rental Programs that was qualified.
- f. Audit findings relation to the major federal award programs for Municipality of Camuy are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
 - SBGP - CFDA No. 14.228
 - Section 8 - CFDA No. 14.855
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Camuy was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on pages 34 to 38.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
Section 8 CFDA No. 14.855	Condition 03-1 The actual administrative plan of the Municipality does not include all the provisions by the Section 8 Management Assessment Program (SEMAP) of 1999, and it must be revised and updated. <u>Criteria</u> Code of Federal Regulations, 24 CFR Section 982.54 states the administrative plan must be revised and updated with HUD regulations. <u>Cause</u> The Municipality does not revise the administrative plan as required by HUD. <u>Effect</u> The Municipality is not in compliance with HUD requirement. <u>Recommendation</u> The Municipality should realize the procedures in order to revise and update the actual administrative plan. It must include the policies necessities to comply with HUD requirements.	\$ <u>-0-</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<p>Section 8 CFDA No. 14.855</p>	<p>Condition 03-2</p> <p>The Municipality should modify their procedures of reasonable rent in order to include more information like date of realization, the source of information, size of units, the signature of external inquires, etc. This make the comparison more efficiently.</p> <p><u>Criteria</u></p> <p>Code of Federal Regulations, 24 CFR Section 982.4, Section 982.54 (d) (15), Section 982.158 (f) (7) and Section 982.507, states the Municipality must determine reasonable rent. It must consider unit attributes such as location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.</p> <p><u>Cause</u></p> <p>The Municipality does not realize many procedures to comply with the requirement.</p> <p><u>Effect</u></p> <p>The Municipality may affect the compliance of 24 CFR Section 982.4, Section 982.54 (d) (15), Section 982.158 (f) (7) and Section 982.507.</p>	<p>\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should improve their procedures in order to obtain better results.</p>	
<p>Section 8 CFDA No. 14.855</p>	<p>Condition 03-3</p> <p>During our participant files test, we observed the majority of the participant files do not have the unit inspection report form required by HUD, and including an old inspection form.</p> <p><u>Criteria</u></p> <p>Code of Federal Regulations, 24 CFR Section 982.158 (a), states that the Municipality must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. Also, 24 CFR Section 982.158 (d) states that the Municipality must prepare a unit inspection reports.</p> <p><u>Cause</u></p> <p>The Municipality does not revise the new HUD's form, and does not maintain an effective control of the inspections realized.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR Section 982.158 (a).</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should realize the unit inspections as required by HUD.</p>	
<p>Section 8 CFDA No. 14.855</p>	<p>Condition 03-4</p> <p>We observed the Municipality established procedures of HQS Quality Control, but we do not observe that any life-threatening deficiencies are corrected within 24 hours from the inspection and all other cited deficiencies are corrected within no more than 30 calendar days from the inspection or any approved extension.</p> <p><u>Criteria</u></p> <p>Code of Federal Regulation, 24 CFR Section 982.404 and 982-406, states that any cited life-threatening HQS deficiencies were corrected within 24 hours from the inspection and all other cited deficiencies were corrected within no more than 30 calendar days from the inspection or any approved extension.</p> <p><u>Cause</u></p> <p>The Municipality does not give the follow-up necessary to make the process complete, in order to comply with HUD regulations.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR Section 982.404 and 982.406.</p> <p><u>Recommendation</u></p> <p>The Municipality should modify the procedures of follow-up of all HQS deficiencies within the required time, in order to comply with HUD regulations.</p>	
<p>Section 8 CFDA No. 14.855</p>	<p>Condition 03-5</p> <p>During our participant files test, we noted the process of reexamination is not realized each year exactly. This process and the 50058 HUD form should be realized each year at the same period, to maintain a sequence of the reexaminations realized since the beginning until present. The process should begin at least 30 days before at the date of the annual reexamination.</p> <p><u>Criteria</u></p> <p>Code of Federal Regulation, 24 CFR Section 990.113 states the income of each family must be reexamined annually.</p> <p><u>Cause</u></p> <p>The Municipality does not have a complete procedure of reexamination.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR Section 990.113.</p> <p><u>Recommendation</u></p> <p>The Municipality should establish procedures to make on time the reexamination of all participants and realize a 50058 HUD form for each year.</p>	
<p>Section 8 CFDA No. 14.855</p>	<p>Condition 03-6</p> <p>The Municipality does not maintain the required documents and information in each file to support participants' eligibility as required by HUD regulations. We noted the following exceptions:</p> <ol style="list-style-type: none"> 1. The files 055, 136, and 163 do not include a good behavior certificate. 2. The files 028, 055, 127, and 163 do not show evidence of income or address. <p><u>Criteria</u></p> <p>Code of Federal Regulation, 24 CRF Section 882, 883, and 889, establishes that the Municipality is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent and utilities. In addition, the</p>	<p style="text-align: center;">\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>Municipality should verify that the information submitted by participants is reliable.</p> <p><u>Cause</u></p> <p>The Municipality's system of internal control is not effectively identifying and correcting these matters through the proper review to participant files for completeness of documents, signatures and information, as well as for their accuracy.</p> <p><u>Effect</u></p> <p>The Municipality is not in compliance with 24 CFR Section 882, 883, and 889.</p> <p><u>Recommendation</u></p> <p>The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 02-1 The actual administrative plan of the Municipality does not include all the provisions by the Section 8 Management Assessment Program (SEMAP) of 1999, and it must be revised and updated.	Condition still prevails.
Section 8 CFDA No. 14.855	Condition 02-2 The Municipality does not maintain a waiting list for selecting applicants. The waiting list observed was discontinued on 1999.	Condition was corrected.
Section 8 CFDA No. 14.855	Condition 02-3 The Municipality has not established on its administrative plan a reasonable written method to determine the rent to an owner is reasonable in comparison to rent for other comparable unassisted units.	Condition still prevails.
Section 8 CFDA No. 14.855	Condition 02-4 We observed on participants' files there is not evidence on a review utility rate data for each utility category for the year 2002.	Condition was corrected.
Section 8 CFDA No. 14.855	Condition 02-5 During our participant files test, we observed that five (5) participant files do not have the unit inspection report form required by HUD. In	Condition still prevails.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	other cases, it's including an old inspection form.	
Section 8 CFDA No. 14.855	Condition 02-6 We do not observe any procedures of HQS Quality Control which any life-threatening deficiencies are corrected within 24 hours from the inspection and all other cited deficiencies are corrected within no more than 30 calendar days from the inspection or any approved extension.	Condition still prevails.
Section 8 CFDA No. 14.855	Condition 02-7 During our participant files test, we noted that eight (8) participant files did not show an effective system of reexamination. The process is not realized into the time required. The 50058 HUD form of rent calculation was not observed for reexamination of all years, and the rent calculation could not be verified.	Condition partially corrected.
Section 8 CFDA No. 14.855	Condition 02-8 The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it holding high cash balances in its bank accounts.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
Section 8 CFDA No. 14.855	Condition 02-9 The Program did not maintain a self-balancing set of accounts or any type of formal accounting records to account for the transactions and payments. Therefore, the Municipality does not have current accurate and complete information with regards to the program's assets, liabilities, obligations or unobligated balances.	Condition was corrected.
Section 8 CFDA No. 14.855	Condition 02-10 The Municipality does not maintain the required documents and information in each file to support participants' eligibility as required by HUD regulations.	Condition still prevails.
Section 8 CFDA No. 14.855	Condition 02-11 The contract between the Municipality and houses owners are not maintained into each participant's files. We also verified there are contracts were not signed. Moreover, the contract does not have sufficient information included to protect the better interest of the Municipality.	Condition was corrected.
Section 8 CFDA No. 14.855	Condition 02-12 The Municipality has not established the appropriate system of internal control to ensure the timely and accurate reconciliation of the accounting records maintained by the program	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CAMUY
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
	accountant with those maintained at the Municipality. The federal program office and the Finance Department of the Municipality maintain a separate set of accounting records kept a double entry system.	

CORRECTIVE ACTION PLAN



*Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Camuy
Departamento de Finanzas*

P.O. Box 539

Camuy, Puerto Rico 00627

Tels. (787) 898-2160 898-4315* 898-2333* 898-2389*



CORRECTIVE ACTION PLAN

December 13, 2003

Cognizant or Oversight Agency for Audit:

Municipality of Camuy respectfully submits the following corrective action plan for the year ended June 30, 2003

Name and address of independent public accounting firm: Ortiz Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2003

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 03-1: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-1

Recommendation

The Municipality should realize the procedures in order to revise and update the actual administrative plan. It must include the policies necessary to comply with HUD requirements.

Action Taken

For the fiscal year ending June 30, 2004 we will have the Administrative Plan Updated and available upon request.

Finding 03-2: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-2

Recommendation

The Municipality should improve their procedures in order to obtain better results.

Action Taken

We revised our Reasonable Rent Form to include the specifics mentioned and have been updated immediately. It will be implemented upon each reexamination of participants.

Finding 03-3: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-3

Recommendation

The Municipality should realize the unit inspections as required by HUD.

Action Taken

The participants' files have an inspection form that was authorized by Mrs. Emilia Herger, HUD Specialist for the year 1990. Since then we had no knowledge that was the incorrect form, until we were notified by your office in the 2002 fiscal year audit. Since then we are using our inspection form in conjunction with HUD inspection forms, where to date has been ordered in various occasions and have not been received in our local offices.

Finding 03-4: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-4

Recommendation

The Municipality should modify the procedures of follow-up of all HQS deficiencies within the required time, in order to comply with HUD regulations.

Action Taken

The inspection was not done in the time established due to that we did not have an authorized inspector, but as of July 16, 2003, the Municipality hired an inspector. When they are life threatening deficiencies, we notify the landlords by mail and hold three months rent until the problem is solved. In a few cases were the landlord does not fixes the deficiencies we proceed to move the tenant.

Finding 03-5: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-5

Recommendation

The Municipality should establish procedures to make on time the reexamination of all participants and realize a 50058-HUD form for each year.

Action Taken

To have a more efficient system to realize our reexamination we have prepared a form to be utilized to keep track of all steps involved in the process of reexamination. And hopefully it completed for the audit in the next fiscal year.

Finding 03-6: Section 8 - CFDA No. 14.855

Reportable Condition: See Condition 03-6

Recommendation

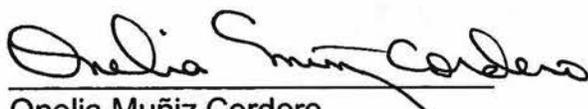
The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Action Taken

The participants' files have been revised and they have been notified about the documents their files are missing. But, the participants have not brought them to our local office, despite our various efforts of letters and phone calls.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mrs. Onelia Muñiz Cordero at (787) 262-7704.

Sincerely yours,



Onelia Muñiz Cordero
Federal Program Director