

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CANOVANAS

AUDITORIA 2000-01

30 DE JUNIO DE 2001

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SINGLE AUDIT REPORT
Year ended June 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CANOVANAS
SINGLE AUDIT REPORT
Year ended June 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CANOVANAS

SINGLE AUDIT REPORT

Year ended June 30, 2001

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

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

We have audited the accompanying general-purpose financial statements of the Municipality of Canóvanas (the Municipality), as of and for the year ended June 30, 200, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

As described in Note 4, the Municipality of Canóvanas has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Canóvanas as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2001, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

San Juan, Puerto Rico
December 18, 2001

Stamp No. 1766021
affixed to the original
report

Coll Benítez CPA FIRM - PSC

MUNICIPALITY OF CANOVANAS
 COMBINED BALANCE SHEET
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2001

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	
ASSETS AND OTHER DEBITS							
Cash	-	\$2,061,214	-	\$2,850,658	-	-	\$4,911,872
Cash held with fiscal agent	-	-	\$819,783	301,361	-	-	1,121,144
Accounts receivable:							
Municipal license	\$17,507	-	-	-	-	-	17,507
Due from other funds	1,731,974	-	-	-	-	-	1,731,974
Due from governmental entity	366,417	-	-	-	-	-	366,417
Federal financial assistance	-	1,210	-	38,073	-	-	39,283
Other	8,128	-	-	31,462	-	-	39,590
General fixed assets	-	-	-	-	\$4,618,259	-	4,618,259
Amount available in Debt Service Fund	-	-	-	-	-	\$819,783	819,783
Amount to be provided for:							
Retirement of general long-term debt obligations	-	-	-	-	-	2,155,217	2,155,217
Property tax advances	-	-	-	-	-	3,345,767	3,345,767
Payment of accrued vacations and sick leave	-	-	-	-	-	889,544	889,544
Claims and judgements	-	-	-	-	-	6,800	6,800
TOTAL ASSETS AND OTHER DEBITS	\$2,124,026	\$2,062,424	\$819,783	\$3,221,554	\$4,618,259	\$7,217,111	\$20,063,157

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF CANOVANAS
 COMBINED BALANCE SHEET
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
 June 30, 2001

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	
LIABILITIES							
Accounts payable and accrued liabilities	\$336,080	\$92,779	-	\$204,437	-	-	\$633,296
Due to other funds	-	1,030,157	-	701,818	-	-	1,731,975
Due to other governmental entities	263,311	-	-	-	-	-	263,311
Deferred volume of business tax	1,458,572	-	-	-	-	-	1,458,572
Deferred federal financial assistance revenue	-	-	-	44,112	-	-	44,112
General long-term debt obligations	-	-	-	-	-	\$2,975,000	2,975,000
Property tax advance	-	-	-	-	-	3,345,767	3,345,767
Accrued vacations and sick leave	-	-	-	-	-	889,544	889,544
Claims and judgements	-	-	-	-	-	6,800	6,800
TOTAL LIABILITIES	2,057,963	1,122,936	-	950,367	-	7,217,111	11,348,377
FUND EQUITY							
Investment in general fixed assets	-	-	-	-	\$4,618,259	-	4,618,259
Fund balance:							
Reserved for encumbrances	562,014	-	-	-	-	-	562,014
Reserved for debt service	-	-	\$819,783	-	-	-	819,783
Unreserved:							
Designated for future years expenditures	-	939,488	-	2,271,187	-	-	3,210,675
Unreserve fund balance (deficiency)	(495,951)	-	-	-	-	-	(495,951)
TOTAL FUND EQUITY	66,063	939,488	819,783	2,271,187	4,618,259	-	8,714,780
TOTAL LIABILITIES AND FUND EQUITY	\$2,124,026	\$2,062,424	\$819,783	\$3,221,554	\$4,618,259	\$7,217,111	\$20,063,157

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF CANOVANAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT)
 ALL GOVERNMENTAL FUND TYPES
 Year ended June 30, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$2,930,056	-	\$933,573	-	\$3,863,629
Volume of business tax	2,126,889	-	-	-	2,126,889
Licenses and permits	1,799,771	-	-	-	1,799,771
Intergovernmental revenues	3,376,169	\$678,215	-	\$2,379,801	6,434,185
Federal financial assistance	-	907,597	-	2,210,854	3,118,451
Rent of property	20,068	-	-	-	20,068
Interest	58,155	742	-	41,949	100,846
Miscellaneous	2,019,232	23,765	-	-	2,042,997
TOTAL REVENUES	<u>12,330,340</u>	<u>1,610,319</u>	<u>933,573</u>	<u>4,632,604</u>	<u>19,506,836</u>
EXPENDITURES					
General administration	7,798,238	443,768	-	-	8,242,006
Public safety	375,408	-	-	-	375,408
Public works	2,302,252	-	-	-	2,302,252
Culture and recreation	321,766	-	-	-	321,766
Environmental control	141,985	-	-	-	141,985
Health	364,986	-	-	-	364,986
Education	81,419	-	-	-	81,419
Welfare	526,920	929,356	-	-	1,456,276
Debt Service:					
Payment of principal	-	-	570,000	-	570,000
Interest	-	-	314,358	-	314,358
Capital outlays	-	-	-	4,788,333	4,788,333
TOTAL EXPENDITURES	<u>11,912,974</u>	<u>1,373,124</u>	<u>884,358</u>	<u>4,788,333</u>	<u>18,958,789</u>
Excess (deficiency) of revenues over expenditures	<u>417,366</u>	<u>237,195</u>	<u>49,215</u>	<u>(155,729)</u>	<u>548,047</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers from other funds	86,136	-	-	-	86,136
Operating transfers to other funds	-	-	(63,600)	(22,536)	(86,136)
TOTAL OTHER FINANCING SOURCES (USES)	<u>86,136</u>	<u>-</u>	<u>(63,600)</u>	<u>(22,536)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financial (uses)	<u>503,502</u>	<u>237,195</u>	<u>(14,385)</u>	<u>(178,265)</u>	<u>548,047</u>
Fund balance (Deficit) at beginning of year	<u>(437,439)</u>	<u>702,293</u>	<u>834,168</u>	<u>2,449,452</u>	<u>3,548,474</u>
Fund balance at end of year	<u>\$66,063</u>	<u>\$939,488</u>	<u>\$819,783</u>	<u>\$2,271,187</u>	<u>\$4,096,521</u>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF CANOVANAS
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES
 - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS
 Year ended June 30, 2001

	General			Debt Service			Totals (Memorandum Only)		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
			Favorable (Unfavorable)			Favorable (Unfavorable)			Favorable (Unfavorable)
REVENUES									
Property taxes	\$2,940,582	\$2,930,056	(\$10,526)	\$837,212	\$872,762	\$35,550	\$3,777,794	\$3,802,818	\$25,024
Volume of business tax	2,011,454	2,012,041	587	-	-	-	2,011,454	2,012,041	587
Licenses and permits	1,739,383	1,799,771	60,388	-	-	-	1,739,383	1,799,771	60,388
Intergovernmental revenues	3,495,526	3,336,452	(159,074)	-	-	-	3,495,526	3,336,452	(159,074)
Rent of property	18,670	20,068	1,398	-	-	-	18,670	20,068	1,398
Interest	170,000	58,155	(111,845)	-	60,811	60,811	170,000	118,966	(51,034)
Miscellaneous	155,063	1,028,957	873,894	-	-	-	155,063	1,028,957	873,894
TOTAL REVENUES	10,530,678	11,185,500	654,822	837,212	933,573	96,361	11,367,890	12,119,073	751,183
EXPENDITURES									
General administration	6,288,400	5,823,115	465,285	-	-	-	6,288,400	5,823,115	465,285
Health	365,986	364,986	1,000	-	-	-	365,986	364,986	1,000
Public safety	381,323	368,797	12,531	-	-	-	381,328	368,797	12,531
Public works	2,466,040	2,237,123	228,917	-	-	-	2,466,040	2,237,123	228,917
Culture and recreation	352,813	327,159	25,654	-	-	-	352,813	327,159	25,654
Environmental control	62,170	59,062	3,108	-	-	-	62,170	59,062	3,108
Education	81,683	81,419	264	-	-	-	81,683	81,419	264
Welfare	532,258	518,678	13,580	-	-	-	532,258	518,678	13,580
Debt Service:									
Payment of principal	-	-	-	627,641	570,000	57,641	627,641	570,000	57,641
Payment of interest	-	-	-	209,571	314,358	(104,787)	209,571	314,358	(104,787)
TOTAL EXPENDITURES	\$10,530,678	9,780,339	750,339	\$837,212	884,358	(47,146)	\$11,367,890	10,664,697	703,193
Excess of revenues over expenditures	-	1,405,161	1,405,161	-	49,215	49,215	-	1,454,376	1,454,376
OTHER FINANCING SOURCES (USES)									
Operating transfer from other funds	-	86,136	86,136	-	-	-	-	86,136	86,136
Operating transfer to other funds	-	-	-	-	(63,600)	(63,600)	-	(63,600)	(63,600)
TOTAL OTHER FINANCING SOURCES (USES)	-	86,136	86,136	-	(63,600)	(63,600)	-	22,536	22,536
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	-	\$1,491,297	\$1,491,297	-	(\$14,385)	(\$14,385)	-	\$1,476,912	\$1,476,912

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Canóvanas (the Municipality) was established in 1970. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen (14) member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

A. REPORTING ENTITY

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

Based on these criteria, at June 30, 2001, there are no significant component units for which the Municipality exercises oversight responsibility. Therefore, the reporting entity is limited to those departments which comprise the Municipality's primary government.

B. BASIS OF PRESENTATION

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

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

Governmental Fund Types

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

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

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

Account Groups

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

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

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

C. BASIS OF ACCOUNTING

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality, therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at time of receipt or earlier if they meet the criteria of availability.

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

D. ENCUMBRANCES

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

E. BUDGETARY DATA

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

1. Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
2. The budget document is available for public inspection prior to its approval by the Municipal Assembly. Also, a copy of the document is sent to the Municipal Affairs Commissioner for further evaluation and recommendation.
3. Prior to July 1, the annual budget is legally enacted through the approval of the annual appropriation ordinance.
4. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

	<u>Revenues</u>	<u>Expenditures</u>
Accounting basis per the Combined Statement of Revenues and Expenditures - General Fund	\$12,330,340	\$11,912,974
Add:		
Current year encumbrances treated as current year expenditures for budgetary purposes		562,014
Deduct:		
Non-budgetary items	1,144,840	2,160,017
Payment of "Resultas"		282,062
Prior year encumbrances		<u>252,570</u>
Budgetary basis	<u>\$11,185,500</u>	<u>\$9,780,339</u>

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

F. CASH, INCLUDING CERTIFICATES OF DEPOSIT

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Treasury Department of the Commonwealth of Puerto Rico. Cash balances from most funds are pooled and invested. All cash in banks at June 30, 2001, is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name. Cash with fiscal agent represents cash held at the Government Development Bank for Puerto Rico that is restricted for the payment of debt service, acquisition of equipment or construction of major capital facilities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

Cash balance at June 30, 2001, includes Certificates of Deposit amounting to \$3,290,000, comprised of the following funds:

General	\$1,300,000
Capital Projects	<u>1,990,000</u>
	<u>\$3,290,000</u>

G. INTERFUND TRANSACTIONS

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

H. GENERAL FIXED ASSETS

General fixed assets acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated general fixed assets are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on general fixed assets. Interest cost during the construction period is capitalized, when material.

I. RESERVATIONS OF FUND BALANCE

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

- Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. Generally these committed amounts will become liabilities in future periods as the goods or services are performed or received.

- Debt Service - represent net assets available to finance future debt service payments.

COMMONWEALTH OF PUERTO RICO
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

J. COMPENSATED ABSENCES

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employees' entitled vacation and sick leave are accrued in the General Long-Term Debt Account Group because it will not be funded with available expendable financial resources.

K. INSURANCE

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

L. TOTAL COLUMNS (MEMORANDUM ONLY)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

NOTE 2 - PROPERTY TAXES

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

The annual tax rate for fiscal year 2001 is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the General Fund. Such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities (b) 1.25% represents the ad valorem tax restricted for debt services and accounted for in the Debt Service Fund. The Commonwealth also contributes an annual tax rate 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retail businesses with an annual volume of sales under \$150,000.

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

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

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2000-2001, but not the final settlement as the six-month period after fiscal year end, provided by law, has not yet expired. The preliminary settlement shows an excess of collections over the advances and charges from CRIM of \$100,657. This amount is shown in the accompanying Combined Balanced Sheet as an amount receivable from to a governmental entity by the General Fund. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

The Municipality has recognized a long-term liability of \$3,345,767, to the Treasury Department arising from the excess of property tax advances over property tax collections until June 30, 1993. This amount is being paid over a period of 15 years.

NOTE 3 - VOLUME OF BUSINESS TAX AND INTERGOVERNMENTAL REVENUES

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

The tax rates are as follows:

- Financial institutions	1.50%
- Other organizations	.50%

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

NOTE 4 - GENERAL FIXED ASSETS

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

NOTE 5 - GENERAL LONG-TERM DEBT

The general long-term debt balances and transactions as of June 30, 2001, are as follows:

	Balance at July 1, 2000	Payments or Additions	Retirements	Balance at June 30, 2001
General obligations-Bonds	\$3,545,000	-	\$570,000	\$2,975,000
Property tax advances	3,345,767	-	-	3,345,767
Accrued vacations and sick leave	925,257	-	35,713	889,544
Claims and judgements	<u>27,000</u>	<u>-</u>	<u>20,200</u>	<u>6,800</u>
Total	<u>\$7,843,024</u>	<u>-</u>	<u>\$625,913</u>	<u>\$7,217,111</u>

General long-term debt at June 30, 2001, is as follows:

General obligations - Bonds:

\$2,270,000 due in annual installments ranging from \$80,000 to \$255,000, plus interest ranging from 4.37% to 5.363% through July 1, 2006 \$1,080,000

\$2,315,000 due in annual installments ranging from \$95,000 to \$265,000, plus interest ranging from 4.70% to 6.875% through July 1, 2009 1,615,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

\$1,210,000 due in annual installments ranging from \$205,000 to \$280,000 plus interest ranging from 6.0% to 8.0% through July 1, 2002	<u>280,000</u>
Total general obligations - bonds	<u>2,975,000</u>
Property tax advances in excess of actual collections	3,345,767
Accrued vacations and sick leave	889,544
Claims and judgements	<u>6,800</u>
Total general long-term debt	<u><u>\$7,217,111</u></u>

The annual requirements for the amortization of general long-term debt obligations (bonds) outstanding as of June 30, 2001, is as follows:

<u>Year ended June 30,</u>	
2002	\$610,000
2003	360,000
2004	390,000
2005	425,000
2006	460,000
thereafter	<u>730,000</u>
	<u><u>\$2,975,000</u></u>

- Loan Guarantee Assistance (LGA) Notes

During fiscal year 1999-2000 the Municipality received an advance of \$1,000,000 from the U.S. Department of Housing and Urban Development from a note totaling \$4,770,000 which had been approved during fiscal year 1996-97. The note is guaranteed by the Federal government through the Loan Guarantee Assistance Program and will be repaid in 18 annual installments of \$265,000. The payment schedule and the interest rates will be established after the total principal of the note is disbursed to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

NOTE 6 - DEBT SERVICE FUND

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

NOTE 7 - OPERATING TRANSFER FROM (TO) OTHER FUNDS

During the fiscal year ended June 30, 2001, the Debt Service and Capital Project Funds transferred to the General Fund a total of \$63,600 and \$22,536, respectively, representing interest earned from cash held on behalf of the Municipality by the Government Development Bank for Puerto Rico.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in various lawsuits. For those cases in which it is probable or reasonable possible that a loss will be incurred and in which the amount of the potential judgement can be reasonably estimated, the Municipality's attorney estimates the liability to be \$6,800 which has been recorded in the general long-term debt account group.

The Municipality is a grantee in various federal financial assistance programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance costs as a result of these audits, become a liability of the fund that receives the grant

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

and must be reimbursed to the Federal Government from the Municipality's local funds. The Schedule of Findings and Questioned Costs for the year ended June 30, 2001, disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, the Municipality expects such amounts, if any, to be immaterial to the general purpose financial statements.

NOTE 9 - PENSION PLAN

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

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

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

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will be annuity be less than \$200 per month.

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

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. For the two preceding fiscal years, the Municipality contributed approximately \$480,000 and \$492,000 which represented 100% of required conditions.

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assures that each

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2001

year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2001, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, Puerto Rico 00940.

NOTE 10 - DUE TO OTHER GOVERNMENTAL ENTITIES

As of June 30, 2001, balance due to other governmental entities, of the General Fund for services rendered to the Municipality, consist of the following:

Puerto Rico Treasury Department	\$ 20,576
Puerto Rico Water and Sewer Authority	28,069
General Services Administration	6,949
Puerto Rico Telephone Company	66,705
Puerto Rico Energy Power Authority	110,695
Retirement System of the Commonwealth of Puerto Rico	<u>23,327</u>
	<u>\$256,321</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2001

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Lower Income Housing Program (Section 8 Voucher)	14.156	RQ-46V-075001	\$172,436
Housing Opportunities for Persons with AIDs Community Development Block Grant/ Entitlement Grant	14.241	N/A	11,382
	14.218*	B-98-MC-72-0018	413,011
	14.218*	B-99-MC-72-0018	398,281
	14.218*	B-00-MC-72-0018	1,154,337
Passed-through Puerto Rico Office of the Commissioner of Municipal Affairs			
State's Program 1994	14.228	B-94 DC72-001	30
State's Program 1996	14.228	B-96 DC72-001	4,529
State's Program 1997	14.228	B-97 DC72-001	<u>237,433</u>
Total U.S. Department of Housing and Urban Development			<u>2,391,439</u>
U.S. Department of Transportation Capital Improvement Grants			
Section 9	20.500	PR 90-X071	<u>45,272</u>
Total U.S. Department of Transportation			<u>45,272</u>
U.S. Department of Health and Human Services			
Passed through Governor's Office for Human Development Child Care	93.575*	N/A	<u>682,200</u>
Total U.S. Department of Health and Human Services			<u>682,200</u>
U.S. Department of Agriculture			
Pass-through the Puerto Rico Elderly Commission Food Distribution	10.570	N/A	<u>93,335</u>
Total U.S. Department of Agriculture			<u>93,335</u>
Passed through Governor's Office for FEMA	83.544	N/A	<u>502,438</u>
Total Federal Financial Assistance			<u>\$3,714,684</u>

* Major Program

N/A Number not available

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2001

NOTE 1 - GENERAL

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

NOTE 2 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

Expenditures in the general purpose financial statements:

Special Revenue Fund	\$1,373,124
Capital Projects Fund	<u>4,788,333</u>
	6,161,457
Less non-federal expenditures	<u>(2,446,773)</u>
Expenditures in the Schedule of Expenditures of Federal Awards	<u>\$3,714,684</u>

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

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

We have audited the financial statements of the Municipality of Canóvanas (the Municipality) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 18, 2001. In our report, our opinion on the general purpose financial statements was qualified for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group at June 30, 2001. Except as previously noted, we conducted our audit in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-01, 01-05 and 01-07.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's

ability to record process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-01 thru 01-12.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness, except for Findings 01-01, 01-05 and 01-07.

This report is intended solely for the information and use of the Municipal Assembly, Municipality's management, state finding agencies, 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
December 18, 2001

Coll Benitez CPA FIRM - PSC

Stamp No. 1766022 was
affixed to the original
report

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

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

Compliance

We have audited the compliance of the Municipality of Canóvanas (the Municipality) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Municipality's major federal programs are identified in the Summary of Auditors' 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's management. Our responsibility is to express an opinion on the Municipality of Canóvanas compliance based on our audit.

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

In our opinion, except for the instances of noncompliance disclosed below, the Municipality of Canóvanas 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, 2001. The results of our auditing procedures disclosed several instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-13 thru 01-39.

Internal Control Over Compliance

The management of the Municipality of Canóvanas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In-planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulation, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-13 thru 01-39.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses, except for Finding 01- 13 and 01-14 included in the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of the Municipal Assembly, Municipality's management, state finding agencies, 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
December 18, 2001

Coll Benítez CPA FIRM - PSC

Stamp No. 1766023 was
affixed to the original
report

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2001

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant-Entitlement
93.575	Pass-through Governor's Office for Human Development Child Care Program
83.544	Pass-through Governor's Office for FEMA

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 CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2001

Section II - Financial Statement Findings

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

oj

01-1 ACCOUNTING SYSTEM

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

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

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. Accounting records were maintained on

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2001

a cash basis during the year and at end of year the corresponding adjustments were made to convert the records to the modified accrual basis. The conversion to the modified accrual basis requires a significant effort because the information has to be gathered from different informal accounting records. The system lacks the necessary supporting records for the preparation of financial statements in accordance with generally accepted accounting principles. Additionally, we noted that certain records in use were not adequately maintained or posted on a timely basis.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2001, was more difficult and less efficient than would have been in ordinary circumstances. A significant amount of adjusting entries had to be made in order to account for unrecorded transactions, or to correct transactions recorded in the wrong accounting period, fund type or account group. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records which are not integrated.

01-2 CASH AND BANK ACCOUNTS

The Municipality has not established sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected. The following control deficiencies were noted during our examination:

- a) The cash balance shown by the Municipality's Treasury Department for the Debt Service Fund as of June 30, 2001, did not agree with the notification of the Account Activity of the Municipal Revenues Collection Center, known by its Spanish acronym as CRIM. This is due to transactions for the fiscal year which were not recorded for in the Municipality's

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2001

books. Although such information was received late from the CRIM, the Municipality had not closed the books at that date and such transactions could have been properly recorded.

RECOMMENDATION:

We recommend that transactions affecting funds held by the CRIM for the Municipality's Debt Service Fund should be recorded on a timely basis and balances reconciled periodically, especially at year end.

- b) Checks totaling \$2,448, as of June 30, 2001, have been outstanding for more than one year. The bank reconciliation are the following:

	<u>Account Name</u>	<u>Account Number</u>	<u>Amount</u>
-	Cuenta Regular	119-831023	\$1,853
-	Aportaciones Child Care	119-016125	214
-	Cuenta Nómina	119-039273	332
-	Programa HOPWA	119-016249	<u>49</u>
			<u>\$2,448</u>

RECOMMENDATION:

The Municipality should improve its control procedures over bank reconciliations to record the necessary adjustments when there are outstanding checks for more than one year. Stop payments should be issued to cancel checks outstanding over twelve months. Such checks should be substituted with new checks and deposited in the appropriate accounts in order to make the funds available to the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2001

01-3 LONG-TERM DEBT

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

RECOMMENDATION:

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

01-4 INTERNAL AUDIT DEPARTMENT

Although the Municipality has re-established the an Internal Audit Office, its functions have been limited to minor areas. Mostly, the internal auditor's work has been limited to preparing the annual audit plan covering certain operating activities of the Municipality.

The main purpose of an Internal Audit Office is to review the various systems and activities and report on weaknesses and deviations from prescribed procedures. This is necessary even in the best managed organizations because organizations change over time and employees have a tendency to forget or ignore the required way of doing things. Also, procedures that were satisfactory at one time may no longer be adequate.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2001

RECOMMENDATION:

We recommend the Municipality to restructure its Internal Audit Department in order to schedule the internal auditor's work in such a way that all major activities and federal programs of the Municipality are audited on a timely basis. To accomplish this objective, the Director of the Internal Audit Department must prepare:

- An audit plan covering all operating and financing activities of the Municipality on an annual basis
- Time schedules for each area to be audited
- Audit programs for each assignment

01-5 FIXED ASSETS

The Municipality does not maintain an adequate control over its fixed assets. As a result of this situation, we noted the following deficiencies:

- a. There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets property ledger.
- b. The subsidiary ledger is not reconciled with the Municipality's accounting records.
- c. The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.
- d. The property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Governmental Accounting, Auditing and Financial Reporting).

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Year ended June 30, 2001

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

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

RECOMMENDATION:

We recommend that the Municipality should:

- a. Establish adequate control procedures to assure that all expenditures are properly recorded in the Municipality's accounting records on a timely basis.
- b. Perform a physical inventory of all property and equipment and compare it with the items recorded in the property ledger. All differences noted should be immediately investigated and resolved. After updating the property ledger, formal procedures should be established to take a physical inventory on a periodic basis.
- c. Revise the property records to provide the information necessary to make the disclosures required by the 1980 GAAFR, which consist of the following:
- General fixed assets by sources
 - General fixed assets by function and activity classifications for each major asset class

 - Changes in general fixed assets by function and activities
 - Changes in general fixed assets by major class

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

01-6 FINANCIAL REPORTING

The Municipality is required by the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico to submit various annual reports to the Office of the Commissioner of Municipal Affairs and other government agencies. During our examination, we noted that the Budgetary Liquidation for the fiscal year ended June 30, 2001 had not been submitted to the corresponding agencies during the required period.

RECOMMENDATION:

The Municipality should improve existing procedures to ensure the timely submission of financial reports to government agencies as required by law.

01-7 INTERFUND TRANSACTIONS

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

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RECOMMENDATION:

We recommend that adequate control procedures be established to assure proper accountability of interfund transactions. These procedures should be designed to properly segregate cash transferred on a loan basis from cash which represents revenue to the program since these transactions have different accounting treatment for financial statement presentation.

01-8 ACCOUNTS PAYABLE AND ENCUMBRANCES

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

RECOMMENDATION:

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

01-9 CASH MANAGEMENT

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

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

RECOMMENDATION:

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

01-10 MUNICIPAL LICENSE TAX

We selected 60 municipal license taxpayers files amounting to \$919,646 for examination, that represents 46% of total tax collected.

The following deficiencies were noted during our test:

- In five (9%) municipal license taxpayers files examined amounting to \$270,284, the municipal license issued were not present in file.
- In one (2%) municipal license taxpayer file examined amounting to \$2,803, the municipal license tax return was not properly certified by an authorized municipal official.

RECOMMENDATION:

The Municipality should improve its control procedures to ascertain that municipal license tax files should contain sufficient information and documentation to support the reason for issuing or denying a gross volume of business license certificate.

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01-11 DISBURSEMENT TEST

As part of our test of cash disbursements during the year (amounting to approximately \$20 million), we selected 60 disbursement vouchers amounting to \$2,546,295 representing 13% of the total disbursements. The following deficiencies were noted during our examination:

- One (2%) disbursement voucher amounting to \$25,175, the purchase order was not available for examination.
- In 5 (9%) disbursement vouchers amounting to \$71,800, the disbursement documentation does not include the three quotations bid procedures required by law.
- In one (1%) disbursement voucher amounting \$18,670, the disbursement does not have the correct accounting distribution
- In 2 (4%) disbursement vouchers amounting \$66,979, the disbursements were not recorded in the Contracts and Order Book.
- In 14 (24%) disbursement vouchers amounting to \$805,328, the disbursements were not posted in General Ledger.

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

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

RECOMMENDATION:

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

01-12 PERSONNEL FILES AND RELATED PAYROLL PROCEDURES

As part of our tests of the payroll disbursements during the year (amounting to approximately \$4.7 million), we selected a sample of 60 personnel files. The following exceptions were noted during our examination:

The following documents were not available for examination:

-	Certificate of no penal record	21 files	35%
-	Copy of Social Security card	3 files	5%
-	Job description	35 files	59%
-	Job application	1 file	2%
-	Birth certificate	4 files	7%
-	Personal history	6 files	10%
-	Medical examination	6 files	10%
-	Changes status report	1 file	2%

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According to Article 15 of the Personnel Manual, the employees files should include among other things, the birth certificate, good behavior certificate, copy of the social security card, medical examination and personnel history.

RECOMMENDATION:

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

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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
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Section III - Federal Award Findings and Questioned Costs

All Programs

**GENERAL MATTERS APPLICABLE TO MORE
THAN ONE PROGRAM**

01-13 ACCOUNTING SYSTEM

Statement of Condition:

The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained for the federal programs by the Municipality's central accounting department. The Municipality has not established procedures for the reconciliation of the transactions OMB Circular A-102, 20(b)(2), requires recipients of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete records of the financial results of the federal program.

NONE

Recommendation:

The Municipality should perform periodic reconciliations between the accounting records held per each federal program and the Finance Department accounting records and reports, in order to provide for an effective detection control within the financial management system.

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AND QUESTIONED COSTS
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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
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All Programs

01-14 INADEQUATE PROPERTY RECORDS

The Municipality of Canóvanas is not maintaining adequate property records that provide all the information required by federal regulations. Property records maintained by the federal programs only include limited information such as property number, item description and quantity.

NONE

The Common Rule, 45 CFR Part 92, Subpart C, requires that property records shall include, the source of property, acquisition date, percentage of federal participation in the cost of the property, location, use and condition of the property and any disposition data, including the date of disposal and sale price.

The Federal Programs should include all required information on property records to adequately safeguard all property and must assure that it is used solely for authorized purposes. Also, must comply with the above mentioned requirement in order to comply with federal regulation.

(This condition was described in the Finding no. 00-6 of the Section II of the Schedule of Findings and Questioned Costs, page 35)

Section 8-Voucher
CFDA No. 14.156
RQ-46-V075-002-004

01-15 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program had an average cash balance of \$45,446 during the fiscal year. There were months which reported balances as high as \$68,184, at the end of the month.

NONE

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AND QUESTIONED COSTS
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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
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Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Program's immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely and possible to the actual disbursements.

Section 8-Voucher
CFDA No. 14.156
RQ-46-V075-002-004

**01-16 REQUISITION FOR PARTIAL PAYMENT
OF ANNUAL CONTRIBUTIONS**

Statement of Condition:

We could not determine the completeness and accuracy of the Requisition for Partial Payment of Annual Contributions, Form HUD-52663, since it was not available for our examination.

NONE

Criteria:

Circular A-102 requires that financial records supporting documents, statistical records, and all other records pertinent to a grant shall be retained for period of three years, or longer until an audit of the grant is performed.

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AND QUESTIONED COSTS
June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
<p>Section 8-Voucher CFDA No. 14.156 RQ-46-V-075-002-004</p>	<p>Recommendation:</p> <p>Procedures should be implemented to comply with financial management system and records retention requirements as established by OMB-A-102.</p> <p>01-17 FEDERAL REPORTING</p> <p>Statement of Condition:</p> <p>We could not determine the completeness and accuracy of the Voucher for Payment of Annual Contributions and Operating Statement, Form HUD 52681, since it was not available for our examination.</p> <p>Criteria:</p> <p>Circular A-102 requires that financial records supporting documents, statistical records, and all other records pertinent to a grant shall be retained for period of three years, or longer until an audit of the grant is performed.</p> <p>Recommendation:</p> <p>Procedures should be implemented to comply with financial management system and records retention requirements as established by OMB A-102.</p>	<p>NONE</p>
<p>Section 8 - Voucher CFDA No. 14.156 RQ-46-V075-002-004</p>	<p>01-18 SUPPORTING DATA FOR ANNUAL CONTRIBUTION</p> <p>Statement of Condition:</p> <p>We could not determine the completeness and accuracy of the Supporting Data for Annual</p>	

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AND QUESTIONED COSTS
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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
	<p>Contribution, Form HUD-52672 and the Estimate of Total Required Annual Contributions, Form HUD-52673, since was not available for examination.</p> <p>Criteria:</p> <p>Circular A-102 requires that financial records supporting documents, statistical records, and all other records pertinent to a grant shall be retained for period of three years, or longer until an audit of the grant is performed.</p> <p>Recommendation:</p> <p>Procedures should be implemented to comply with financial management system and records retention requirements as established by OMB A-102.</p>	<p>NONE</p>
<p>SBGP 1986 CFDA No. 14.228</p>	<p>01-19 FEDERAL MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$6,704, during the fiscal year.</p> <p>Criteria:</p> <p>Federal Regulation required that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p>	<p>NONE</p>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
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Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Recommendation:

In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

SBGP 1988
CFDA No. 14.228

01-20 FEDERAL MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$18,303, during the fiscal year.

NONE

Criteria:

Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.

Recommendation:

In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

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SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
SBGP 1991 CFDA No. 14.228	<p>01-21 FEDERAL MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$20,049, during the fiscal year.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.</p>	NONE
SBGP 1997 CFDA No. 14.228	<p>01-22 REPORTING REQUIREMENT</p> <p>Statement of Condition:</p> <p>We could not ascertain the timely submission of the following Quarterly Report sent to the Office of the Commissioner of Municipal Affairs (OCAM), since they were not available for our examination.</p>	NONE

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SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
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Quarter ended
September 30, 2000
December 31, 2000
March 31, 2001
June 30, 2001

Criteria:

Circular A-102 requires that financial records, supporting documents, statistical records, and all other records pertinent to a grant shall be retained for period of three years, or longer until an audit of the grant is performed.

Recommendation:

Procedures should be implemented to comply with financial management system and records retention requirements as established by OMB-A-102.

SBGP 1997
CFDA No. 14.228

01-23 FEDERAL MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$13,097 during the fiscal year. There were months which reported balances as high as \$56,776.

NONE

Criteria:

Federal Regulation requires that grantees shall conform to the standards applicable to advances from Federal Agencies. Amounts requested should be limited to the Program's immediate cash needs.

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SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
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Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Recommendation:

In accordance with Federal Regulations, the Municipality should estimate drawdown of Federal funds as closely as possible to the actual disbursements.

SBGP 1997
CFDA No. 14.218

00-24 DAVIS-BACON ACT

Statement of Condition:

As part of our audit test we selected 9 weekly payrolls from the following construction project:

The following deficiencies were noted during our examination:

- Construcción Biblioteca San Isidro
 - a) There was no evidence that employee interviews were performed during the period.
 - b) The Project files did not include the required contractor's form certifying the correctness of the weekly payrolls.

NONE

NONE

Criteria:

According to HUD Handbook:

Contractor weekly payrolls and other basic records should be reviewed during routine compliance enforcement activity on every construction project.

Submitted payrolls shall be examined to assure compliance with the labor standards. Also, a preconstruction conference must be held to explain labor standards.

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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
UMTA CFDA NO. 20.500 PR 90-X071	<p>Recommendation:</p> <p>The Municipality should establish procedures to ascertain that all documents submitted by the contractor are reviewed and approved on a timely basis to ensure compliance with labor standards.</p> <p>01-25 FEDERAL CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program has an average cash balance of \$19,141, during the fiscal year. There were months which reported balances as high as \$50,680, at the end of the month.</p> <p>Criteria:</p> <p>Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.</p>	NONE

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AND QUESTIONED COSTS
June 30, 2001

Program

Findings/Noncompliance and Recommendations

Questioned
Costs

**01-26 INADEQUATE DOCUMENTATION
OF PROVIDERS FILES**

Child Care
CFDA NO. 93.575

Statement of Condition:

As part of our eligibility test to providers of the Child Care Program, we selected a sample of 30 providers. The following documents were not available for examination:

NONE

a. Birth certificate	1 file	3%
b. Copy of social security card	2 files	6%
c. House inspection	10 files	30%
d. Certificate of no penal record	2 files	6%
e. Unemployment certification	30 files	100%
f. Drug-Free Work Place	30 files	100%

Criteria:

According to the contract agreement and the eligibility criteria for selecting providers, the service providers must submit two health certificates, two birth certificates, two certificates of no penal records and the social security card. Also, the provider shall sign a certification statement stating that the development of grant activity will be drug and alcohol free.

Recommendation:

The Municipality should implement a checklist to be used for each provider file to assure completeness of the required documentation, and perform follow-up procedures in order to update such files. This may help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowance.

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SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

Program

Child Care
CFDA NO. 93.575

Findings/Noncompliance and Recommendations

01-27 INADEQUATE DOCUMENTATION OF PARTICIPANT FILES

Questioned
Costs

Statement of Condition:

As part of our eligibility test to participants of the Child Care Program, we selected a sample of 30 participants. The following documents were not available for examination:

NONE

- | | | |
|------------------|--------|----|
| a. Civil status | 1 file | 3% |
| b. Utility bills | 1 file | 3% |

Criteria:

According to the contract agreement and the eligibility criteria for selecting participants, the beneficiaries must submit, among others written evidence of the birth certificate, social security number for all family members and a certificate of parent job status.

The failure to have all forms and documents in the participant file may result in failure to detect errors or irregularities which may expose the Municipality to cost disallowances. Some of the possible errors may include inaccurate or unauthorized benefit payments.

Recommendation:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
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<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
Child Care CFDA NO. 93.575	<p>01-28 FEDERAL MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program has an average cash balance of \$13,028. during the fiscal year. There were months which reported balances as high as \$18,535, at the end of the month.</p> <p>Criteria:</p> <p>Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.</p>	NONE
Child Care CFDA NO. 93.575	<p>01-29 FEDERAL CASH MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program has an average cash balance of \$125,589, during the fiscal year. There were months which reported balances as high as \$226,409, at the end of the month.</p>	NONE

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June 30, 2001

Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances by Federal agencies. Amounts requested should be limited to the Program's immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

CDBG 2000
CFDA NO. 14.218
B-00-MC-72-0018

01-30 FEDERAL MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program had an average cash balance of \$46,278, during the fiscal year. There were months which reported balances as high as \$127,553, at the end of the month.

NONE

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

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AND QUESTIONED COSTS
June 30, 2001

Program

Findings/Noncompliance and Recommendations

Questioned
Costs

CDBG 1999
CFDA NO. 14.218
B-99-MC-72-0018

01-31 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program has an average cash balance of \$50,261, during the fiscal year. There were months which reported balances as high as \$375,233, at the end of the month.

NONE

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursement.

CDBG 1999
CFDA No. 14.218
B-99-MC-72-0018

01-32 INADEQUATE DOCUMENTATION OF PARTICIPANT FILES

Statement of Condition:

As part of our test to determine whether the grantee assure that the rehabilitation work is properly completed, we selected a sample of 30 participants. The following documents were not available for examination:

NONE

- | | | |
|-----------------------------|----------|-----|
| a. Final inspection | 12 Files | 40% |
| b. Re-habilitation contract | 20 Files | 67% |

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AND QUESTIONED COSTS
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Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Criteria:

According to 24 CFR, 570.506 the grantee must assure that the work is properly completed. For each residential rehabilitation activity the following records are needed:

- a) Re-habilitation contract describing the deficiencies in each structure to be corrected.
- b) An inspection of the rehabilitation work upon completion to assure that it was carried out in accordance with contract specifications.

Recommendation:

The Municipality must inspect the rehabilitation work upon completion to assure that it is carried out in accordance with the contract specifications.

CDBG-1998
B-98-MC-72-0018
CFDA No. 14.218

00-33 CONTRACT PROVISION - DAVIS - BACON ACT

Statement of Condition:

During our audit, we noted that the Program incurred in \$484,823, for construction purposes for which the required contract provisions and conditions related to Davis-Bacon Act were not included. As a result, there are no established procedures for monitoring applicable contractors with respect to the payment of prevailing wages.

NONE

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AND QUESTIONED COSTS
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Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Criteria:

Federal regulation requires the contracting officer to insert in full in any contract in excess of \$2,000, which is entered into for the actual construction, alteration and/or repair, including painting and decorating of public building or public work, or building or work financed in whole or in part with federal funds, the provisions related to Davis-Bacon Act and Sewer System and Contract Work Hours and Safety Standards Act.

Recommendation:

The Municipality should appoint a contracting officer to evaluate all contracts in excess of \$2,000, related to the construction, alteration and/or repair of public building or public work, financed in whole or in part by federal funds, to require the inclusion in the contract of the provisions related to Davis Bacon Act and Contract Work Hours and Safety Standards Act.

CDBG 1998
B-98-MC-72-0018
CFDA No. 14.218

01-34 DAVIS-BACON ACT

Statement of Condition:

As part of our audit test we selected 9 weekly payrolls from the following construction projects:

- Construcción Biblioteca, Bo. Torrecilla Alta
- Construcción de cancha Bo. Lomas

During our examination we noted that there was no evidence that employee interviews were performed during the period.

NONE

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Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Criteria:

According to HUD Handbook:

Contractor weekly payrolls and other basic records should be reviewed during routine compliance enforcement activity on every construction project. Submitted payrolls shall be examined to assure compliance with the labor standards. Also, a preconstruction conference must be held to explain labor standards.

Recommendation:

The Municipality should establish procedures to ascertain that all documents submitted by the contractor are reviewed and approved on a timely basis to ensure compliance with labor standards.

CDBG 1998
CFDA No. 14.218
B-98-MC-72-0018

01-35 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program has an average cash balance of \$5,706, during the fiscal year. There were months which reported balances as high as \$31,588, at the end of the month.

NONE

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances by Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursement.

Housing Preservation
Grant

01-36 FEDERAL CASH MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program has an average cash balance of \$9,875, during the fiscal year. There were months which reported balances as high as \$10,711, at the end of the month.

NONE

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
FEMA 1247 CFDA NO. 83.544	<p>01-37 FEDERAL MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program had an average cash balance of \$140,198, during the fiscal year. There were months which reported balances as high as \$546,706. at the end of the month.</p> <p>Criteria:</p> <p>Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.</p> <p>Recommendation:</p> <p>In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.</p>	NONE
Pass-through the Puerto Rico Elderly Commission Food Distribution CFDA No. 10.570	<p>01-38 FEDERAL MANAGEMENT SYSTEM</p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program had an average cash balance of \$142,741, during the fiscal year. There were months which reported balances as high as \$184,705, at the end of each month.</p>	NONE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
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Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

HOPWA
CFDA NO. 14.241

01-39 FEDERAL MANAGEMENT SYSTEM

Statement of Condition:

The Municipality has not established effective cash management procedures. The program had an average cash balance of \$5,188, during the fiscal year. There were months which reported balances as high as \$8,320, at the end of each month.

NONE

Criteria:

Federal regulations require that Grantee shall conform to the standards applicable to advances from Federal agencies. Amounts requested should be limited to the Programs immediate cash needs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS
June 30, 2001

Program

Findings/Noncompliance and Recommendations

Questioned
Costs

Recommendation:

In accordance with Federal regulations, the Municipality should estimate drawdowns of Federal funds as closely as possible to the actual disbursements.

Total Questioned Costs

\$ -



Gobierno Municipal de Canóvanas

Apartado 1612,
CANOVANAS, PUERTO RICO 00729

Tel.: (787) 876-2328
Fax 256-7269

José R. "Chemo" Soto Rivera
Alcalde

December 18, 2001

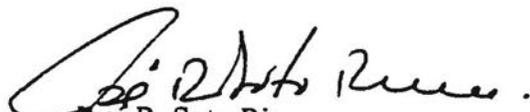
Coll Benítez, CPA - Firm, PSC
Certified Public Accountants and
Business Consultants
Midtown Building, Suite 614
420 Ponce de León Avenue
Hato Rey, Puerto Rico 00918

Dear Auditors:

We have received the Schedule of Findings and Questioned Costs, included in the Single Audit Report of the Municipality of Canóvanas for the year ended June 30, 2001.

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

Cordially,


José R. Soto Rivera
Mayor


Lilliam Rodríguez García
Finance Director


Víctor M. Ramos Santiago
Federal Programs Director

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-2001).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-2001.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-1	Accounting System	NR
00-2	Operating Deficit of General Fund	R
00-3	Cash and Bank accounts	PR
00-4	Long-term debt	NR
00-5	Internal Audit Department	NR
00-6	Fixed Assets	NR
00-7	Financial Reporting	NR
00-8	Interfund transactions	NR
00-9	Accounts payable and encumbrances	NR
00-10	Cash management	NR
00-11	Municipal license tax	NR
00-12	Disbursement test	NR
00-13	Personnel files and related payroll procedures	NR

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-2001).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-2001.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-14	Binding Procedures	PR ✓
00-15	Records Retention Requirement State Funds	FR
00-16	Accounting System	NR ✓
00-17	Inadequate Property Records	NR ✓
00-18	Disbursement Test (Federal Funds)	FR
00-19	Federal Cash Management System	NR ✓
00-20	Requisition for Partial Payment of Annual Contributions	NR ✓
00-21	Federal Reporting	NR ✓
00-22	Voucher for Payment and Operating Statement	FR
00-23	Supporting Data for Annual Contribution	NR ✓
00-24	Balance Sheet for Section 8	FR
00-25	Record Retention Requirement	FR
00-26	Federal Management System	FR

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-27	Federal Management System	FR
00-28	Federal Management System	NR
00-29	Quarterly Reports	FR
00-30	Reporting Requirement	NR
00-31	Federal Management System	NR
00-32	Inadequate Documentation of Providers Files	NR
00-33	Inadequate Documentation of Participant Files	NR
00-34	Federal Management System	NR
00-35	Reporting Requirement	FR
00-36	Federal Cash Management System	NR
00-37	Inadequate Documentation of Participant Files	NR
00-38	Reporting Requirement	FR
00-39	Davis-Bacon Act	FR
00-40	Davis-Bacon Act	NR
00-41	Federal Cash Management System	NR
00-42	Federal Cash Management System	NR

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and Internal Control Based on the Audit of the General Purpose Financial Statements for Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 1999. Under the heading Corrective Action Taken there will be the following:

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

PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-2001).

NR - Not resolved yet. Finding repeated in fiscal year 2000-2001.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
99-1	Accounting System	NR
99-2	Cash and Bank accounts	PR
99-3	Long-term debt	NR
99-4	Internal Audit Department	NR
99-5	Fixed Assets	NR
99-6	Financial Reporting	NR
99-7	Interfund transactions	NR
99-8	Accounts payable and encumbrances	NR
99-9	Cash management	NR
99-10	Municipal license tax	NR
99-11	Disbursement test	NR
99-12	Personnel files and related payroll procedures	NR

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 1999. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-2001).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-2001.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
99-13	Single Audit Act	FR
99-14	Accounting System	NR
99-15	Inadequate Property Records	NR
99-16	Federal Cash Management System	NR
99-17	Estimate of Total Required Annual Contribution	FR
99-18	Requisition for Partial Payment of Annual Contributions	NR
99-19	Federal Reporting	NR
99-20	Balance Sheet for Section 8	FR
99-21	Quarterly Reports	NR
99-22	Federal Management System	NR
99-23	Federal Management System	FR
99-24	Federal Management System	NR

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
99-25	Reporting Requirement	FR
99-26	Federal Management System	NR
99-27	Inadequate Documentation of Providers Files	NR
99-28	Inadequate Documentation of Participant Files	NR
99-29	Incomplete Information	FR
99-30	Records Retention Requirement	FR
99-31	Federal Cash Management System	NR
99-32	Federal Cash Management System	NR
99-33	Federal Cash Management System	NR