

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CAYEY**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES  
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UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF CAYEY**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2001**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CAYEY

YEAR ENDED JUNE 30, 2001

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF CAYEY**

**YEAR ENDED JUNE 30, 2001**

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
The Municipal Assembly  
Municipality of Cayey  
Cayey, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Cayey**, as of and for the year ended June 30, 2001, 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 paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget 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 the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in **Note 9**, the **Municipality of Cayey** 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.

As disclosed in **Note 14**, at June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and postclosure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Postclosure Care Costs.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 of the Municipality and the balances and transactions disclosed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Cayey** 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Cayey**, taken as 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. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 13, 2002

Stamp No. 1700940 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY  
COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				Account Group	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>						
Cash and cash equivalents	\$2,100,423	\$1,642,506		\$3,801,080		\$7,544,009
Cash with fiscal agent		934,155	\$4,989,599	3,893,761		9,817,515
Intergovernmental receivables	822,176					822,176
Municipal license taxes receivable	268,875					268,875
Notes receivable				764,267		764,267
Federal grant receivables		114,524		4,360		118,884
Due from other funds	60,247	2,499		325,536		388,282
Other receivables	262,953	279				263,232
Amount available in Debt Service Fund					\$4,989,599	4,989,599
Amount to be provided for retirement of general long-term debt					26,981,530	26,981,530
<b>Total assets and other debits</b>	<b><u>\$3,514,674</u></b>	<b><u>\$2,693,963</u></b>	<b><u>\$4,989,599</u></b>	<b><u>\$8,789,004</u></b>	<b><u>\$31,971,129</u></b>	<b><u>\$51,958,369</u></b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$636,186	\$89,704		\$528,674		\$1,254,564
Due to other funds	233,788	102,565		51,929		388,282
Due to other governmental entities	569,356				\$5,993,520	6,562,876
Deferred municipal license tax revenues	3,082,964					3,082,964
Deferred federal grant revenues		549,398		3,027,079		3,576,477
General obligation bonds					16,489,000	16,489,000
Notes payable					7,650,000	7,650,000
Claims and judgments					57,421	57,421
Accrued landfill obligations					395,703	395,703
Accrued compensated absences					1,385,485	1,385,485
<b>Total liabilities</b>	<b><u>4,522,294</u></b>	<b><u>741,667</u></b>		<b><u>3,607,682</u></b>	<b><u>31,971,129</u></b>	<b><u>40,842,772</u></b>
<b>Fund equity:</b>						
Fund balances (deficit):						
Reserved for encumbrances	354,922					354,922
Reserved for debt service			\$4,989,599			4,989,599
Unreserved:						
Designated for specific fund purposes		1,952,296		5,181,322		7,133,618
Undesignated	(1,362,542)					(1,362,542)
<b>Total fund equity (deficit)</b>	<b><u>(1,007,620)</u></b>	<b><u>1,952,296</u></b>	<b><u>4,989,599</u></b>	<b><u>5,181,322</u></b>		<b><u>11,115,597</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$3,514,674</u></b>	<b><u>\$2,693,963</u></b>	<b><u>\$4,989,599</u></b>	<b><u>\$8,789,004</u></b>	<b><u>\$31,971,129</u></b>	<b><u>\$51,958,369</u></b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$6,126,959		\$2,407,634		\$8,534,593
Municipal license taxes	3,994,464				3,994,464
Licenses and permits	1,329,030				1,329,030
Intergovernmental	2,180,589	\$112,545		\$48	2,293,182
Rent of property	60,734				60,734
Fines and penalties	27,015				27,015
Interest	856,979				856,979
Federal grants		3,361,902		3,663,612	7,025,514
Charges for services	1,883,991	364,880			2,248,871
Miscellaneous	643,499	166,508		100,447	910,454
<b>Total revenues</b>	<u>17,103,260</u>	<u>4,005,835</u>	<u>2,407,634</u>	<u>3,764,107</u>	<u>27,280,836</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	1,164,949				1,164,949
General government	6,858,104	473,077		8,280	7,339,461
Public safety	1,039,157	132,185			1,171,342
Public works	3,463,899	1,806,828		950,096	6,220,823
Public health and sanitation	1,559,685	390,448			1,950,133
Welfare		686,563			686,563
Economic development	158,668				158,668
Recreation	1,010,256				1,010,256
Human services	1,555,952				1,555,952
Principal retirement		675,000	1,550,000		2,225,000
Interest		139,221	931,988		1,071,209
<b>Capital outlays</b>	<u>70,752</u>			<u>6,544,979</u>	<u>6,615,731</u>
<b>Total expenditures</b>	<u>16,881,422</u>	<u>4,303,322</u>	<u>2,481,988</u>	<u>7,503,355</u>	<u>31,170,087</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	221,838	(297,487)	(74,354)	(3,739,248)	(3,889,251)
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers from/to other funds	105,552	(105,552)			
Bond proceeds from bond issuance		450,000		1,010,000	1,460,000
<b>Total other financing sources (uses)</b>	<u>105,552</u>	<u>344,448</u>		<u>1,010,000</u>	<u>1,460,000</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>	327,390	46,961	(74,354)	(2,729,248)	(2,429,251)
<b>Fund balances, (deficit) beginning, as restated</b>	<u>(1,335,010)</u>	<u>1,905,335</u>	<u>5,063,953</u>	<u>7,910,570</u>	<u>13,544,848</u>
<b>Fund balances (deficit), ending</b>	<u>(\$1,007,620)</u>	<u>\$1,952,296</u>	<u>\$4,989,599</u>	<u>\$5,181,322</u>	<u>\$11,115,597</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$5,553,603	\$6,126,959	\$573,356	\$1,881,994	\$2,407,634	\$525,640
Municipal license taxes	4,140,000	3,994,464	(145,536)			
Licenses and permits	970,300	1,329,030	358,730			
Intergovernmental	2,358,054	2,180,589	(177,465)			
Rent of property	201,000	60,734	(140,266)			
Fines and penalties	10,000	27,015	17,015			
Interest	715,000	856,979	141,979			
Charges for services	2,339,311	1,883,991	(455,320)			
Miscellaneous	1,409,400	643,499	(765,901)			
Total revenues	<u>17,696,668</u>	<u>17,103,260</u>	<u>(593,408)</u>	<u>1,881,994</u>	<u>2,407,634</u>	<u>525,640</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	957,274	824,072	133,202			
General government	7,435,099	6,871,937	563,162			
Public safety	1,099,999	1,038,707	61,292			
Public works	3,553,000	3,142,366	410,634			
Public health and sanitation	1,623,087	1,583,314	39,773			
Economic development	217,742	167,434	50,308			
Recreation	1,052,740	976,974	75,766			
Human services	1,650,396	1,202,254	448,142			
<b>Capital outlays</b>	107,331	69,693	37,638			
<b>Debt service:</b>						
Principal retirement				1,550,000	1,550,000	
Interest				331,994	931,988	(599,994)
Total expenditures and encumbrances	<u>17,696,668</u>	<u>15,876,751</u>	<u>1,819,917</u>	<u>1,881,994</u>	<u>2,481,988</u>	<u>(599,994)</u>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>		1,226,509	1,226,509		(74,354)	(74,354)
<b>OTHER FINANCING SOURCES(USES):</b>						
Operating transfer from other fund		105,552	105,552			
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>		1,332,061	1,332,061			
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Current year encumbrances treated as current year expenditures for budgetary basis		354,922				
Payment of "Resultas"		(280,714)				
Non-budgetary items		(349,156)				
Prior year encumbrances		(729,723)				
<b>Fund balances(deficit), beginning, as restated</b>		<u>(1,335,010)</u>			5,063,953	
<b>Fund balances (deficit), ending</b>		<u><u>(\$1,007,620)</u></u>			<u><u>\$4,989,599</u></u>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The **Municipality of Cayey** (the Municipality) was established in 1773. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

**A. Financial reporting entity:**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14, The Financial Reporting Entity*, of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**B. Basis of presentation:**

The Municipality records its transactions in the fund types and account groups described below:

**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 be expended for specific purposes.

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

**Capital Projects** - is used to account for financial resources to be used 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 Fixed Assets** - is used to account for all fixed assets of the Municipality.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**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 obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous 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 the 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**D. Reservations of fund balance:**

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

Encumbrances - Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end, these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

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

**E. Budgetary data:**

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

- Prior to May 31, the Major 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.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**E. Budgetary data (continued):**

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances - 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 budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

**F. Inventories:**

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant. As indicated in Note 9, the information to account for these general fixed assets is not available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**H. Cash and cash equivalents:**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in a saving account and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". 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 to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

Operating transfers - Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

Transfer of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**J. Compensated absences:**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an 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.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16, Accounting for Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**L. Total columns (memorandum only):**

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns 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.

**M. Use of estimates in the preparation of general purpose financial statements:**

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**N. Claims and judgements:**

The estimated amount of the liability for claims and judgements, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

The amounts due to other governmental entities in the General Fund include the following:

Puerto Rico Aqueduct and Sewer Authority	\$ 65,401
General Services Administration	635
Retirement System Administration	89,057
Puerto Rico Electric Power Authority	317,396
Internal Revenue Service	6,963
Puerto Rico Telephone Company	89,904
	<hr/>
	\$569,356

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Puerto Rico Electric Power Authority	\$1,632,211
Municipal Revenue Collection Center (1996-97 to 1998-99)	4,361,309
	<hr/>
	\$5,993,520

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**3. PROPERTY TAXES:**

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, 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.

Tax rates are 8.83% for real property and 6.83% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 2.00% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the preliminary liquidation noting that the collections exceeded advances by \$ 426,508. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**4. MUNICIPAL LICENSE TAXES:**

The municipal license 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 Acts 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	0.50%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

**5. INTERGOVERNMENTAL:**

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from a quasi-public corporation, principally 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.

**6. CASH AND CASH EQUIVALENTS:**

Cash in bank accounts	\$ 2,394,009
Certificates of deposit (90 days or less)	<u>5,150,000</u>
Total cash and cash equivalents	<u>\$ 7,544,009</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**7. NOTES RECEIVABLE:**

At June 30, 2001, the notes receivable are composed of the following:

- a. Note receivable from Cooperativa Agro-Comercial de P.R. " La Marquetin", in the original amount of \$740,000, to be collected as follows: \$ 510,226
    - 1. Monthly interest payments of \$1,850, at 3% annual interest rate, from the first through the end of the fifth year.
    - 2. Monthly installments of \$5,110 including interest at 3%, starting on the sixth year through year 2011.
  
  - b. Note receivable from Hospital Menonita in the original amount of \$350,000, to be collected in monthly installments of \$3,037, including interest at 8.5% through year 2012. 254,041
- \$ 764,267

**8. DEBT SERVICE FUND:**

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated 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.

**9. 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, building and equipment.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF CAYEY**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2001**

**10. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 16,579,000
Debt issued	1,460,000
Principal retirements	<u>(1,550,000)</u>
 Balance at June 30, 2001	 <u>\$ 16,489,000</u>

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1989 Series	7-1-04	460,000	3.3% to 8.6%	\$ 190,000
1992 Series	7-1-07	2,440,000	4.2% to 6.4%	1,555,000
1995 Series	1-1-18	663,000	5.0 %	555,000
1995 Series	1-1-18	465,000	5.0 %	384,000
1997 Series	7-1-01	3,335,000	4.9% to 6.8%	775,000
1997 Series	7-1-01	150,000	4.9% to 6.8%	40,000
1997 Series	7-1-07	280,000	6.0% to 7.5%	220,000
1998 Series	7-1-02	25,000	4.9% to 6.7%	10,000
1998 Series	7-1-22	1,015,000	4.9% to 6.7%	975,000
1998 Series	7-1-13	1,990,000	4.9% to 6.7%	1,770,000
1998 Series	7-1-13	355,000	4.9% to 6.3%	325,000
1998 Series	7-1-13	3,705,000	4.9% to 6.1%	3,415,000
1998 Series	7-1-03	210,000	4.9% to 6.0%	135,000
1999 Series	7-1-05	355,000	0.0% to 7.8%	270,000
1999 Series	7-1-12	725,000	6.0% to 7.1%	660,000
1999 Series	7-1-23	685,000	6.0% to 7.0%	665,000
2000 Series	7-1-04	55,000	7.3% to 7.5%	45,000
2000 Series	7-1-04	250,000	0.0% to 7.8%	205,000
2000 Series	7-1-06	355,000	7.3% to 7.5%	350,000
2000 Series	7-1-14	810,000	7.3% to 7.5%	785,000
2000 Series	7-1-14	1,765,000	7.3% to 7.5%	1,700,000
2001 Series	7-1-05	180,000	5.0% to 8.0%	180,000
2001 Series	7-1-25	270,000	5.0% to 8.0%	270,000
2001 Series	7-1-25	1,010,000	5.0% to 8.0%	<u>1,010,000</u>
Total general obligation bonds				<u>\$ 16,489,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 1,732,000
2003	989,000
2004	1,066,000
2005	1,087,000
2006	1,034,000
Thereafter	<u>10,581,000</u>
Total	<u>\$ 16,489,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**10. GENERAL OBLIGATION BONDS (CONTINUED):**

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

**11. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 8,325,000
Debt issued	-
Payments during the current year	<u>(675,000)</u>
Balance at June 30, 2001	<u>\$ 7,650,000</u>

Notes payable at June 30, 2001 are as follows:

<b>Description</b>	<b>Maturity Date</b>	<b>Original Amount</b>	<b>Range of Interest rates</b>	<b>Balance June 30, 2001</b>
Section 108 loan	8-1-06	\$3,330,000	5.9% to 7.1%	\$ 2,130,000
Section 108 loan	8-1-14	1,670,000	6.2% to 6.5%	1,560,000
Section 108 loan	8-1-15	4,225,000	6.2% to 6.5%	<u>3,960,000</u>
 Total notes payable				 <u>\$ 7,650,000</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

<b>Year ended June 30</b>	<b>Total</b>
2002	\$ 675,000
2003	675,000
2004	675,000
2005	675,000
2006	675,000
Thereafter	<u>4,275,000</u>
 Total	 <u>\$ 7,650,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**12. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2001**

**12. RETIREMENT PLAN (CONTINUED)**

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits pension plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**12. RETIREMENT SYSTEM (CONTINUED):**

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant spouse in case of the participant death. Participants with balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump sum to his/her beneficiaries. Participants have the option of a lump sum or purchasing an annuity contract in case of permanent disability.

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 475,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employees services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- \* The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- \* Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**12. RETIREMENT SYSTEM (CONTINUED):**

Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the System.

**13. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

Operating transfers represent transfers between funds to specific purposes designated by the management.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**14. LANDFILL OBLIGATIONS:**

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. At June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure care costs.

**15. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2001, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$57,421 in the general long-term debt account group for anticipated unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of estimated as probable liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**15. COMMITMENTS AND CONTINGENCIES: (CONTINUED)**

In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. The final outcome of these claims cannot be determined by legal counsel with the information currently available. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**16. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances (Deficit) for General, Special Revenue and Capital Projects Funds have been restated, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balance (Deficit) at July 1, 2000	\$(1,459,168)	\$2,425,919	\$7,389,986
Elimination of the encumbrances from the fiscal year 1998-99 as required by the Article 8.007 of the Municipal Law Number 81 of August 30, 1991, as amended.	18,272		
Cancellation of checks issued during the last fiscal year with more than six months outstanding	105,886		
Reclassification between Special Revenue and Capital Projects Funds		(520,584)	520,584
Beginning Fund Balance at July 1, 2000, as restated	<u>\$(1,335,010)</u>	<u>\$1,905,335</u>	<u>\$7,910,570</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 364,060
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>81,416</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>445,476</u></b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Programs:			
Community Development Block Grants- Entitlement Grants	14.218		2,090,553
Urban Development Action Grant	14.221		65,655
Community Development Block Grants- Section 108 Loan Guarantee	14.248		2,458,475
Direct Program (Cluster of Programs):			
Section 8 Rental Voucher Program	14.855		662,043
Section 8 Rental Certificate Program	14.857		<u>128,258</u>
Total Cluster of Programs			790,301
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants- State's Program	14.228	SBGP 92 Disaster Recovery	17,819 <u>124,759</u> 142,578

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>Total U.S. Department of Housing and Urban Development:</b>			<b>5,547,562</b>
<b>U.S. DEPARTEMENT OF JUSTICE:</b>			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710		131,145
<b>Total U.S. Department of Justice</b>			<b>131,145</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Highway and Transportation Authority:			
Federal Transit - Capital Improvement Grants	20.500	Not Available	299,362
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission:			
Incentive Grants	20.601	Not Available	300
<b>Total Department of Transportation</b>			<b>299,662</b>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management - State and Local Assistance	83.534	Not Available	272,380

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1248-DRPR	<u>248,002</u>
<b>Total U.S. Federal Emergency Management Agency</b>			<u><b>520,382</b></u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Program for Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	<u>125,608</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>125,608</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 7,069,835</b></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2001**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Cayey** and is presented using the modified accrual basis of accounting. 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*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue and Capital Projects Funds in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	3,361,902	3,707,933	7,069,835
Non federal programs expenditures	<u>941,420</u>	<u>3,795,422</u>	<u>4,736,842</u>
Total expenditures in the general purpose financial statements	<u>4,303,322</u>	<u>7,503,355</u>	<u>11,806,677</u>

**3. SUBRECIPIENTS:**

The **Municipality of Cayey** provided Federal Awards to subrecipients as follow:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Community Development Block Grants/Entitlement Grants	14.218	<u>\$ 30,000</u>



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the general purpose financial statements of the **Municipality of Cayey** as of and for the year ended June 30, 2001, and have issued our report thereon dated March 13, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Cayey's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **00-01** through **00-03**.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS (CONTINUED)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of 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 to be material weaknesses. However, we believe items **01-01** and **01-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving internal control over financial reporting, which we have reported to management of the **Municipality of Cayey** in a separate letter dated March 13, 2002.

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

  
LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 13, 2002

Stamp No.1785234 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

Compliance

We have audited the compliance of the **Municipality of Cayey** 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. The **Municipality of Cayey'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 the **Municipality of Cayey's** management. Our responsibility is to express an opinion on the **Municipality of Cayey's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 of Cayey'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 of Cayey's** compliance with those requirements.

In our opinion, the Municipality 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **00-4** through **00-08**, **01-10** and **01-11**.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Cayey's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-04** through **01-11**.

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 on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-05**, **01-06**, and **01-08** through **01-10** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Cayey** in a separate letter dated March 13, 2002.



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

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

  
LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 13, 2002

Stamp No.1785235 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: **Qualified**

Internal control over financial reporting:

Material weakness identified? Yes   X   No       

Reportable conditions identified not considered to be material weaknesses? Yes   X   None reported       

Noncompliance material to financial statements noted? Yes        No   X  

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes   X   No       

Reportable conditions identified not considered to be material weaknesses? Yes   X   None reported       

Type of auditors' report issued on compliance for major programs: **Unqualified**

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants - Entitlement
14.248	Community Development Block Grants - Section 108 Loan Guarantee Program
14.855-57	Section 8 Rental Programs ( Cluster )

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

Auditee qualified as low-risk auditee? Yes        No   X

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>01-01</b>
<b>Requirement</b>	<b>Fixed\ Capital Assets and Expenditures - Subsidiary Ledger</b>
<b>Statement of Condition</b>	During our examination of Municipality's property records and reports we noted the following deficiencies; (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger; (c) Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger.
<b>Criteria</b>	Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the Federal regulations have established that a financial management system shall provide for effective control and accountability for all funds, fixed assets, and other assets.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure the completeness of the property records and reports.
<b>Effect of Condition</b>	Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information
<b>Management Response</b>	Actually the Municipality Finance Director is evaluating this situation to take corrective actions and implement procedures in order to assure the proper valuation and timeless of recognition in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

**Finding Reference**      **01-02**

**Requirement**            **Financial Reporting**

**Statement of Condition**    The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure.

**Criteria**                    *GASB Statements No. 18* requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.

**Cause of Condition**        The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.

**Effect of Condition**        Municipality is not in compliance with the *GASB Statement No. 18* requirements.

**Recommendation**         We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the *GASB Statement No. 18*.

**Management Response**    The Municipality will contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also, the Municipality will include in its general purpose financial statements the landfill closure and post-closure costs necessary to comply with the *GASB Statement No. 18*.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>01-03</b>
<b>Requirement</b>	<b>Financial Reporting - Accounting Records</b>
<b>Statement of Condition</b>	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
<b>Criteria</b>	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarizing in the form of a double-entry general ledger record.
<b>Effect of Condition</b>	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system who contain information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Management Response</b>	The Municipality will implement internal control and procedures in order to maintain and accounting system who contain information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-04</b>
<b>Program</b>	<b>Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development  Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized Cash Management Test and after our procedures we found the following exceptions:  a. The Municipality requested funds that were not disbursed on a reasonable lapse of time.  b. The programs maintained an excessive average cash balance in books.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR Section 85.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>Effect of Condition</b>	Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations, 24 CFR Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Director of the Finance Department will issued a memorandum similar to one issued on October 26, 2001, to assure that the Section 8 and CDBG program funds are disbursed on a reasonable lapse of time.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-05</b>
<b>Program</b>	<b>Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Earmarking- Funds used over three years period to benefit low and moderate income persons.</b>
<b>Statement of Condition</b>	For program year 1998 the Municipality has used only \$1,122,421.00, over a period of three years to benefit low and moderate income, which represent only 58% of the total grant of \$1,929,000 for this program year.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR Sections 570.200 (a)(3) and 570.208 (a) states that not less than 70 percent of the funds must be used over a period of up to three years for activities that benefit low and moderate income persons.
<b>Cause of Condition</b>	The Municipality does not use at least 70 % of the funds over a period of up to three years, for activities that benefit low- and moderate-income persons.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Sections 570.200 (a)(3) and 570.208 (a)
<b>Recommendation</b>	The Municipality should implement procedures to assure that at least 70 percent of the funds approved for a particular program year are used over a period of up to three years to benefit low- and moderate-income persons.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality will implement procedures to assure that funds approved are used over a period of up to three years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-06</b>
<b>Program</b>	<b>Community Development Block Grant – Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test- Housing Rehabilitation</b>
<b>Statement of Condition</b>	<p>During our audit of twenty-five (25) housing rehabilitation files, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. In twenty-four (24) cases the rehabilitation contract did not specify which were the participant housing unit deficiencies to be corrected. The contract made reference to the Purchase Order.</li><li>b. In thirteen (13) cases the inspection form did not specify which were the participant housing unit deficiencies to be corrected.</li><li>c. In twenty-five (24) cases the eligibility determination was not properly documented.</li><li>d. In twelve (12) cases no evidence was found in the file showing that the grantee inspected the rehabilitation work upon completion in order to assure that it was carried out in accordance with contract specifications.</li><li>e. In two (2) cases the file did not included adequate evidence of family income.</li><li>f. In three (3) cases the file did not included adequate evidence of residence existence.</li><li>g. One (1) participant’s file was not available for our examination.</li><li>h. In twelve (12) cases we could not determine which were the improvements, from the information in the file.</li></ul>
<b>Criteria</b>	<p>According to 24 CFR, Section 570.506 states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-06 (Continued)</b>
<b>Cause of Condition</b>	The program has not established adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.
<b>Effect of Condition</b>	Municipality is not in compliance with 24 CFR, Section 570.506.
<b>Recommendation</b>	We recommend the Program to establish the following procedures: <ol style="list-style-type: none"><li>a. Ascertain that the housing unit deficiencies to be corrected are incorporated into the rehabilitation contract.</li><li>b. Realize pre-rehabilitation inspection describing the housing unit deficiencies to be corrected.</li><li>c. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications.</li><li>d. Assure that all participants' files include all required documentations such as eligibility determination, adequate evidence of family income and evidence of residence existence.</li><li>e. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the approved Annual Action Plan.</li></ol>
<b>Management Response</b>	The rehabilitation contract will be updated to include the deficiencies to be corrected. The Federal Programs Director Assistant will perform periodical reviews, to assure that rehabilitations are duly completed as required by regulations and applicable documentation is maintained. There was only one employee in charge of all the programs duties. Since January 2002 the duties were distributed among several employees.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-07</b>
<b>Program</b>	<b>Community Development Block Grant - Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>  <b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	During our audit of Community Development Block Grant- Entitlement Grant we found that the Federal Cash Transaction Report (SF-272) for the period ended 6/30/01 did not trace to the accounting records  During our audit of Section 8 Rental Voucher Program and Rental Certificate Program we found that the Year-End Settlement (HUD-52681) were submitted after deadline and included as an expense portability payments due from others PHA's. Also, the SEMAP (HUD-52648) report was submitted after deadline.
<b>Criteria</b>	OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of fund to accounting records. Also, it requires accurate, current and complete disclosure of financial results.  OMB Circular A-87, Attachment C, states that to be allowable under Federal awards, costs must be net of all applicable credits, such as receipt or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-07 (Continued)</b>
<b>Cause of Condition</b>	<p>The Municipality did not maintain evidence of the submission date of the reports Quarterly Reports. Also the Municipality did not maintain an adequate internal control to assure that the Quarterly Reports are accurately prepared in order to assure that the information reported is in accordance with the accounting records.</p> <p>The Municipality did not have adequate procedures in order to assure that all financial and programmatic reports are submitted on time and costs reported on financial reports be net of all applicable credits, such as receipt or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs.</p>
<b>Effect of Condition</b>	<p>The Municipality did not comply with the 24 CFR, Section 85.20 (b) (1) and OMB Circular A-87.</p>
<b>Recommendation</b>	<p>We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submit on time to the agencies and prepare in accordance with the required accounting basis.</p> <p>The Municipality should also amend the Year-End Settlement (HUD-52681) reports as of 6/30/01 and implement procedures to assure that the correct expense amount is presented on these reports.</p>
<b>Questioned Costs</b>	None
<b>Management Response</b>	<p>Instructions will be given by the Program Director, to amend the Year-End Settlement, and will implement procedures to assure that the correct expenses amount is presented on these reports.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **01-08**

**Program**                    **Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development**

**Requirement**            **Eligibility**

**Statement of Condition** We performed an eligibility test and examined a sample of sixty (60) participant files. The following will summarize the deficiencies found:

- a. In fifteen (15) cases there was no evidence of application form in the participant file.
- b. In fifteen (15) cases there was no release form to allow PHA to obtain information from third parties signed by the head of household.
- c. In fifteen (15) cases there was no Federal prescribed general release form for employment information signed by the head of household.
- d. In fifteen (15) cases there was no privacy act notice form signed by the head of household.
- e. In nine (9) cases some members of the family who are at least 18 years old did not sign the application form and/or other release forms included in the participant's file.
- f. In ten (10) cases there was no copy of the social security card of one or more members of the family.
- g. In ten (10) cases there was no copy of the certificate of birth of one or more members of the family.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-08 (Continued)</b>
<b>Criteria</b>	Code of Federal Regulations, 24 CFR, Sections 5.212, 5.230, and 5.601 through 5.617 states as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federal prescribed general release form for employment information and a privacy act notice.
<b>Cause of Condition</b>	The Municipality did not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Sections 5.212, 5.230, and 5.601 through 5.617.
<b>Recommendation</b>	We recommend the Program to establish the following procedures:  a. Provide an application form to be filled by the participant and signed by all members of the family who are at least 18 years old.  b. Provide a Federal prescribed general release form for employment information and a privacy act notice to be signed by all members of the family who are at least 18 years old.  c. Implement internal control procedures to assure that the participant's files include all documentation required by federal agencies.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Housing Choice Voucher Program's Staff (formerly Section 8) will assure that all required documentation and releases required by HUD will be filled, signed and/or placed in participant's files.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-09</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Reasonable Rent</b>
<b>Statement of Condition</b>	During our verification of sixty (60) participant files we noted that for thirteen cases the determination of reasonable rent was not documented in the participant file.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent to the owner is reasonable.
<b>Cause of Condition</b>	The Federal Program Department did not maintain records to document the basis for the determination that the rent to the owner is reasonable.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507.
<b>Recommendation</b>	We recommend that the Federal Program Department must implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participants file.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipal Office of Federal Programs will implement controls to assure that applicable documentation of the determination of reasonable rent is maintained in participant's files.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-10</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Quality Standards Inspections</b>
<b>Statement of Condition</b>	During our verification of sixty (60) participant files we did not found evidence of quality control reinspections.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control reinspections.
<b>Cause of Condition</b>	Management does not have adequate internal control procedures to assure that quality control reinspections are realized and properly documented.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Subpart I, Section 982.158 (d) and 982.405 (b)
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that quality control reinspections are realized and properly documented.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipal Office of Federal Programs will implement internal control procedures to assure that quality control re-inspections are carried out and properly documented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-11</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Quality Standards Enforcement</b>
<b>Statement of Condition</b>	During our verification of sixty (60) participant files we noted the following deficiencies in fifteen (15) cases; the file did not document that the PHA require correction of any cited HQS deficiencies within 30 calendar days of the inspection.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.158 (d) and 982.404 states that for units under contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner fails to correct the deficiencies the PHA must stop the HAP payments.
<b>Cause of Condition</b>	Management does not have adequate internal control procedures to assure that in all cases they document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection, and that they realize and document the reinspections to assure that PHA-required repairs were completed.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Subpart I, Section 982.158 (d) and 982.404.
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that in all cases they document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection and that they realize and document the reinspections to assure that PHA-required repairs were completed.
<b>Questioned Costs</b>	None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **01-11 (Continued)**

**Management Response**    The Municipal Office of Federal Programs will implement internal control procedures to assure that quality control re-inspections are carried out and properly documented.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-05	N/A	<p><u>The Municipality did not maintain adequate property records.</u></p> <p>No corrective action has been taken. The Municipality should organize a GASB 34 Team composed by municipal employees and contracted professionals in order to actualize real property, personal property and infrastructure inventory, to comply with GASB 34 requirements.</p>
00-06	14.855 14.857	<p><u>The accounting records maintained by the Federal Program Office are not reconciled with the accounting records kept by the central accounting department.</u></p> <p>Full corrective action has been taken.</p>
00-07	14.218	<p><u>Funds requested by the Municipality were not disbursed on a reasonable time from the date they were received.</u></p> <p>No corrective action has been taken. The Program staffs were instructed by the Program Director, to request funds to cover immediate cash needs, and to disburse funds in a reasonable time from the date were received.</p>
00-08	14.218	<p><u>Quarterly reports submitted after deadline.</u></p> <p>Full corrective action has been taken.</p>
00-09	14.218	<p><u>Quarterly reports submitted after deadline.</u></p> <p>Full corrective action has been taken.</p>
00-10	14.857	<p><u>Failure to submit Voucher for Payment of Annual Contributions and Operating Statement Form HUD-52681.</u></p> <p>No corrective action has been taken. The Municipality is developing a reporting calendar to ascertain that all deadlines for different federal programs are met.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-11	14.857	<u>Failure to timely submits the Balance Sheet.</u>  Finding no longer valid because the Balance Sheet is no longer required for the program.
00-12	14.855	<u>Failure to submit Voucher for Payment of Annual Contributions and Operating Statement Form HUD-52681.</u>  No corrective action has been taken. The Municipality is developing a reporting calendar to ascertain that all deadlines for different federal programs are met.
00-13	14.855	<u>Failure to timely submits the Balance Sheet.</u>  Finding no longer valid because the Balance Sheet is no longer required for the program.
00-14	14.857 14.855	<u>No appropriate documentation on tenant files</u>  No corrective action has been taken. The Municipality is preparing a checklist in order to ascertain that all documents required by regulations are included in the files.
99-5	N/A	<u>Inadequate Property Records</u>  No corrective action has been taken. The Municipality should organize a GASB 34 Team composed by municipal employees and contracted professionals in order to actualize real property, personal property and infrastructure inventory, to comply with GASB 34 requirements.
99-6	14.855 14.857	<u>The accounting records maintained by the Federal Program Office are not reconciled with the accounting records kept by the central accounting department.</u>  Full corrective action has been taken.
98-2	N/A	<u>Disbursements vouchers not available for examination</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The Finance Director assigned personnel to search missing disbursement documents.
98-5	N/A	<u>Disbursements vouchers not available for examination</u>
		No corrective action has been taken. The Finance Director assigned personnel to search missing disbursement documents.