

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CAYEY**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

OFFICE OF THE COMPTROLLER  
GENERAL OF THE COMMONWEALTH OF PUERTO RICO  
00122-4700  
UNIVERSITY BUILDING

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF CAYEY**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2002**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CAYEY

YEAR ENDED JUNE 30, 2002

CONTENTS

	<b>Page</b>
<b><u>FINANCIAL</u></b>	
Independent auditor's report	1-2
General-purpose financial statements:	
Combined balance sheet - all governmental fund types and account groups	3
Combined statement of revenues, expenditures, and changes in fund balances - all governmental fund types	4
Combined statement of revenues, expenditures, encumbrances, and changes in fund balances - budget and actual general and debt service funds	5
Notes to general-purpose financial statements	6-25
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Schedule of expenditures of federal awards	26-28
Notes to the schedule of expenditures of federal awards	29
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Independent auditors' report on compliance and on internal control over financial reporting based on an audit of general purpose financial statements performed in accordance with <i>Government Auditing Standards</i>	30-31

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF CAYEY**

**YEAR ENDED JUNE 30, 2002**

**CONTENTS - (CONTINUED)**

	<b>Page</b>
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u></b>	
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	32-34
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of findings and questioned cost	35-66
Schedule of prior year audit findings	67-69



**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 Legislature  
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, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the 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, 2002.

As disclosed in **Note 14**, at June 30, 2002, 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, 2002, 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 November 27, 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  
November 27, 2002

Stamp No. 1853986 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, 2002**

	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	\$3,353,558	\$1,383,258		\$1,785,815		\$6,522,631
Cash with fiscal agent		1,836,310	\$5,574,612	6,323,274		13,734,196
Intergovernmental receivables	823,047					823,047
Municipal license taxes receivable	2,697					2,697
Notes receivable				706,306		706,306
Federal grant receivables		479,601		842,009		1,321,610
Due from other funds	506,359	10,166		527,894		1,044,419
Other receivables	64,204	305				64,509
Amount available in Debt Service Fund					\$5,574,612	5,574,612
Amount to be provided for retirement of general long-term debt					28,944,877	28,944,877
<b>Total assets and other debits</b>	<u>\$4,749,865</u>	<u>\$3,709,640</u>	<u>\$5,574,612</u>	<u>\$10,185,298</u>	<u>\$34,519,489</u>	<u>\$58,738,904</u>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$495,454	\$123,501		\$991,663		\$1,610,618
Due to other funds	134,516	909,903				1,044,419
Due to other governmental entities	383,135				\$5,892,650	6,275,785
Deferred municipal license tax revenues	2,833,556					2,833,556
Deferred federal grant revenues		361,407		2,794,177		3,155,584
Deferred- other		70,144				70,144
General obligation bonds					18,777,000	18,777,000
Notes payable					6,975,000	6,975,000
Claims and judgments					181,282	181,282
Accrued landfill obligations					395,703	395,703
Accrued compensated absences					2,297,854	2,297,854
<b>Total liabilities</b>	<u>3,846,661</u>	<u>1,464,955</u>		<u>3,785,840</u>	<u>34,519,489</u>	<u>43,616,945</u>
<b>Fund equity:</b>						
<b>Fund balances (deficit):</b>						
Reserved for encumbrances	1,477,712					1,477,712
Reserved for debt service			\$5,574,612			5,574,612
<b>Unreserved:</b>						
Designated for specific fund purposes		2,297,916		7,792,779		10,090,695
Undesignated	(574,508)					(574,508)
<b>Total fund equity (deficit)</b>	<u>903,204</u>	<u>2,244,685</u>	<u>5,574,612</u>	<u>6,399,458</u>		<u>16,568,511</u>
<b>Total liabilities and fund equity</b>	<u>\$4,749,865</u>	<u>\$3,709,640</u>	<u>\$5,574,612</u>	<u>\$10,185,298</u>	<u>\$34,519,489</u>	<u>\$58,738,904</u>

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, 2002**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$6,809,111		\$3,218,752		\$10,027,863
Municipal license taxes	4,423,212				4,423,212
Licenses and permits	965,815				965,815
Intergovernmental	2,743,068	\$280,986		\$937,914	3,961,968
Rent of property	92,488				92,488
Fines and penalties	27,673				27,673
Interest	630,652				639,652
Federal grants		3,728,524		2,065,360	5,793,884
Charges for services	2,028,013	147,055			2,175,068
Miscellaneous	283,663	104,979		27,675	416,317
<b>Total revenues</b>	<u>18,012,695</u>	<u>4,261,544</u>	<u>3,218,752</u>	<u>3,030,949</u>	<u>28,523,940</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	803,260				803,260
General government	7,492,845	777,627		243,142	8,513,614
Public safety	968,819	169,538			1,138,357
Public works	3,046,714	1,890,929		204,098	5,141,741
Public health and sanitation	1,541,048	92,350			1,633,398
Welfare	6,380	852,033			858,413
Economic development	150,978				150,978
Recreation	953,401				953,401
Human services	1,497,534	43,532			1,541,066
Principal retirement		675,000	1,732,000		2,407,000
Interest		528,196	901,739		1,429,935
Capital outlays	106,927			3,646,234	3,753,161
<b>Total expenditures</b>	<u>16,567,906</u>	<u>5,029,205</u>	<u>2,633,739</u>	<u>4,093,474</u>	<u>28,324,324</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	1,444,789	(767,661)	585,013	(1,062,525)	199,616
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers from/to other funds	(163,756)	112,714		51,042	-
Bond proceeds from bond issuance		1,430,000		2,590,000	4,020,000
<b>Total other financing sources (uses)</b>	<u>(163,756)</u>	<u>1,542,714</u>		<u>2,641,042</u>	<u>4,020,000</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>	1,281,033	775,053	585,013	1,578,517	4,219,616
<b>Fund balances, (deficit) beginning, as restated</b>	<u>(377,829)</u>	<u>1,469,632</u>	<u>4,989,599</u>	<u>4,820,941</u>	<u>10,902,343</u>
<b>Fund balances (deficit), ending</b>	<u>\$903,204</u>	<u>\$2,244,685</u>	<u>\$5,574,612</u>	<u>\$6,399,458</u>	<u>\$15,121,959</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, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$5,986,064	\$5,986,064	\$ -	\$2,098,442	\$3,218,752	\$1,120,310
Municipal license taxes	4,550,000	4,420,515	(129,485)			
Licenses and permits	937,143	965,815	28,672			
Intergovernmental	2,875,893	2,743,067	(132,826)			
Rent of property	262,000	92,488	(169,512)			
Fines and penalties	10,000	27,673	17,673			
Interest	715,000	639,652	(75,348)			
Charges for services	2,450,000	2,170,472	(279,528)			
Miscellaneous	511,000	283,663	(227,337)			
<b>Total revenues</b>	<u>18,297,100</u>	<u>17,329,409</u>	<u>(967,691)</u>	<u>2,098,442</u>	<u>3,218,752</u>	<u>1,120,310</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	924,977	813,636	111,341			
General government	8,566,847	7,409,221	1,157,626			
Public safety	1,041,371	963,552	77,819			
Public works	3,176,566	2,946,995	229,571			
Public health and sanitation	1,574,662	1,572,447	2,215			
Economic development	212,710	175,665	37,045			
Recreation	1,028,772	981,322	47,450			
Human services	1,617,908	1,514,769	103,139			
Capital outlays	153,287	151,867	1,420			
<b>Debt service:</b>						
Principal retirement				1,274,000	1,732,000	(458,000)
Interest				824,442	901,739	(77,297)
<b>Total expenditures and encumbrances</b>	<u>18,297,100</u>	<u>16,529,474</u>	<u>1,767,626</u>	<u>2,098,442</u>	<u>2,633,739</u>	<u>(535,297)</u>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>		799,935	799,935		585,013	585,013
<b>OTHER FINANCING SOURCES(USES):</b>						
Operating transfer from other fund		(163,756)	(163,756)			
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>		<u>636,179</u>	<u>636,179</u>			
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
GAAP adjustments to revenues		683,286				
Current year encumbrances treated as current year expenditures for budgetary basis		558,304				
Prior year encumbrances paid during the current year		(343,086)				
Non-budgetary items		(253,650)				
<b>Fund balances(deficit), beginning, as restated</b>		<u>(377,829)</u>			4,989,599	
<b>Fund balances (deficit), ending</b>		<u>\$903,204</u>			<u>\$5,574,612</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, 2002**

**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, 2002**

**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, 2002**

**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, 2002**

**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, 2002**

**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, 2002**

**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, 2002 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, 2002**

**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, 2002.

**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, 2002**

**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	\$ 8,793
General Services Administration	2,343
Puerto Rico Electric Power Authority	317,396
Puerto Rico Telephone Company	54,603
	<hr/>
	\$383,135

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, 2002. The following is the balance of these accounts:

Puerto Rico Electric Power Authority	\$1,521,567
Municipal Revenue Collection Center (1996-97 to 1998-99 and 99-00)	4,371,083
	<hr/>
	\$5,892,650

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**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. The CRIM issued the final liquidation noting that the collections exceeded advances by \$ 823,047. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2002.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**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	\$ 2,897,631
Certificates of deposit (90 days or less)	<u>3,625,000</u>
Total cash and cash equivalents	<u>\$ 6,522,631</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**7. NOTES RECEIVABLE:**

At June 30, 2002, 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: \$ 467,513
    - 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. 238,793
- \$ 706,306

**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, 2002**

**10. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 20001	\$ 16,489,000
Debt issued	4,020,000
Principal retirements	<u>(1,732,000)</u>
 Balance at June 30, 2002	 <u>\$ 18,777,000</u>

General obligation bonds at June 30, 2002 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1989 Series	7-1-04	460,000	3.3% to 8.6%	\$ 150,000
1992 Series	7-1-07	2,440,000	4.2% to 6.4%	1,385,000
1995 Series	1-1-18	663,000	5.0 %	534,000
1995 Series	1-1-18	465,000	5.0 %	368,000
1997 Series	7-1-07	280,000	6.0% to 7.5%	195,000
1998 Series	7-1-02	25,000	4.9% to 6.7%	5,000
1998 Series	7-1-22	1,015,000	4.9% to 6.7%	955,000
1998 Series	7-1-13	1,990,000	4.9% to 6.7%	1,685,000
1998 Series	7-1-13	355,000	4.9% to 6.3%	310,000
1998 Series	7-1-13	3,705,000	4.9% to 6.1%	3,250,000
1998 Series	7-1-03	210,000	4.9% to 6.0%	95,000
1999 Series	7-1-05	355,000	0.0% to 7.8%	225,000
1999 Series	7-1-12	725,000	6.0% to 7.1%	625,000
1999 Series	7-1-23	685,000	6.0% to 7.0%	655,000
2000 Series	7-1-04	55,000	7.3% to 7.5%	35,000
2000 Series	7-1-04	250,000	0.0% to 7.8%	160,000
2000 Series	7-1-06	355,000	7.3% to 7.5%	340,000
2000 Series	7-1-14	810,000	7.3% to 7.5%	750,000
2000 Series	7-1-14	1,765,000	7.3% to 7.5%	1,625,000
2001 Series	7-1-05	180,000	5.0% to 8.0%	150,000
2001 Series	7-1-25	270,000	5.0% to 8.0%	265,000
2001 Series	7-1-25	1,010,000	5.0% to 8.0%	995,000
2001 Series	7-1-06	165,000	5.0% to 7.5%	165,000
2001 Series	7-1-16	255,000	5.0% to 8.0%	255,000
2001 Series	7-1-08	325,000	5.0% to 7.5%	325,000
2001 Series	7-1-06	475,000	5.0% to 7.5%	475,000
2001 Series	7-1-16	1,120,000	5.0% to 7.5%	1,120,000
2001 Series	7-1-18	835,000	5.0% to 7.5%	835,000
2002 Series	7-1-06	260,000	5.0% to 8.0%	260,000
2002 Series	7-1-16	125,000	5.0% to 7.5%	125,000
2002 Series	7-1-08	205,000	5.0% to 7.5%	205,000
2002 Series	7-1-26	255,000	5.0% to 7.25%	<u>255,000</u>
 Total general obligation bonds				 <u>\$ 18,777,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2002, are as follows:

<b>Year ended June 30</b>	<b>Total</b>
2003	\$ 1,289,000
2004	1,396,000
2005	1,437,000
2006	1,404,000
2007	1,401,000
Thereafter	<u>11,850,000</u>
<b>Total</b>	<u>\$ 18,777,000</u>

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**11. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2000	\$ 7,650,000
Debt issued	-
Payments during the current year	<u>(675,000)</u>
Balance at June 30, 2002	<u>\$ 6,975,000</u>

Notes payable at June 30, 2002 are as follows:

<u>Description</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance June 30, 2002</u>
Section 108 loan	8-1-06	\$3,330,000	5.9% to 7.1%	\$ 1,830,000
Section 108 loan	8-1-14	1,670,000	6.2% to 6.5%	1,450,000
Section 108 loan	8-1-15	4,225,000	6.2% to 6.5%	<u>3,695,000</u>

Total notes payable	<u>\$ 6,975,000</u>
---------------------	---------------------

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2002, are as follows:

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 675,000
2004	675,000
2005	675,000
2006	1,025,000
2007	655,000
Thereafter	<u>3,270,000</u>
Total	<u>\$ 6,975,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**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, 2002**

**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, 2002**

**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, 2002 recorded as pension expenditures was approximately \$ 428,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

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, 2002**

**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, 2002**

**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, 2002, 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, 2002, 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 \$181,282 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, 2002**

**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, 2001	\$(1,007,620)	\$1,952,296	\$5,181,322
To correct the last year Intergovernmental Receivable due to adjustments made in the CRIM Final Liquidation of the year 2000-2001	(213,254)		
To reclassify inactive funds from Special Revenue and Capital Projects Funds as per the Resolution 90 Series 2001-02	843,045	(482,664)	(360,381)
Beginning Fund Balance (Deficit) at July 1, 2001, as restated	<u>\$ (377,829)</u>	<u>\$1,469,632</u>	<u>\$4,820,941</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

<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 Programs:			
Rural Housing Preservation Grant	10.433		\$ 20,031
Nutrition Program for the Elderly	10.570		25,540
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>12,707</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>58,278</u></b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218		2,529,753
Urban Development Action Grant	14.221		113,676
Community Development Block Grants – Section 108 Loan Guarantee	14.248		540,053
Section 8 Housing Choice Voucher	14.871		<u>818,454</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>4,001,936</u></b>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710		116,062

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

<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>
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law and Enforcement Block Grants	16.592	Not Available	53,475
<b>Total U.S. Department of Justice</b>			<b>169,537</b>
 <b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Direct Program: Federal Transit - Formula Grants	20.507		1,357,026
<b>Total U. S. Department of Transportation</b>			<b>1,357,026</b>
 <b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management Performance Grants	83.552	Not Available	54,605
<b>Total U. S. Federal Emergency Management Agency</b>			<b>54,605</b>
 <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Program for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Not Available	17,992

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

<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 - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	<u>134,509</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>152,501</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 5,793,883</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, 2002**

**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	\$ 3,728,523	\$ 2,065,360	\$ 5,793,883
Non federal programs expenditures	<u>1,300,682</u>	<u>2,028,114</u>	<u>3,328,796</u>
Total expenditures in the general purpose financial statements	<u>\$ 5,029,205</u>	<u>\$ 4,093,474</u>	<u>\$ 9,122,679</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>\$ 20,695</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 Legislature  
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, 2002, and have issued our report thereon dated November 27, 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 **02-02** through **02-05**.

**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 02-01 and 02-02 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 November 27, 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  
November 27, 2002

Stamp No. 1853987 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 Legislature  
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, 2002. 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.

Except as discussed in the following paragraphs, 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.

As described in item **02-11** in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Cayey** with Federal Transit – Formula Grant Program regarding Reporting, nor were we able to satisfy ourselves as to the **Municipality of Cayey's** compliance with those requirements by other auditing procedures. Also, As described in item **02-20** in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Cayey** with Section 8 Housing Choice Voucher Program regarding Reporting-Performance Reporting, nor were we able to satisfy ourselves as to the **Municipality of Cayey's** compliance with those requirements by other auditing procedures.

**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)**

As described in items 02-13, 02-14, 02-16, 02-18, 02-19, 02-21 and 02-22 in the accompanying schedule of findings and questioned costs, the **Municipality of Cayey** did not comply with requirements regarding Financial Reporting, Eligibility of Individuals, Special Test-Housing Quality Standards Inspections and HQS Enforcement, Special Test-Utility Allowance Schedule, and Special Test-Selection from Section 8 Waiting List that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Cayey** to comply with requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Cayey's** compliance with the requirements of Federal Transit - Formula Grant Program and Section 8 Housing Choice Voucher Program regarding Reporting, and the noncompliance described in the preceding paragraph, the **Municipality of Cayey** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which 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, 02-06 through 02-10, and 02-12.

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 02-06 through 02-10, 02-12 through 02-19, 02-21, and 02-22.



**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)**

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 **02-09, 02-12 through 02-14, 02-16 through 02-19, 02-21 and 02-22** 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 28, 2003.

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 28, 2003

Stamp No. 1853988 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, 2002**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:	Qualified	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified, except Qualified for Section 8 Housing Choice Voucher (CFDA No. 14.871) and for Federal Transit – Formula Grant (CFDA. No. 20.507)	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants – Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program
20.507	Federal Transit – Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	Yes      No <input checked="" type="checkbox"/>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-01</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: balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; 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; and 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>	The 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's 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, 2002**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>02-02</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure cost.
<b>Criteria</b>	<i>GASB Statements No. 18</i> 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.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure and post-closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
<b>Management Response</b>	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 <i>GASB Statement No. 18</i> .

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-03</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 summarized 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 that 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 an accounting system that 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, 2002**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>02-04</b>
<b>Requirement</b>	<b>Payroll and Related Liabilities - Payroll Preparation and Timekeeping</b>
<b>Statement of Condition</b>	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the exceptions noted:</p> <ul style="list-style-type: none"><li>a. In four (4) employees files the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 30, 2002.</li><li>b. In twenty (20) cases the I-9 Form was not duly completed.</li><li>c. For four (4) employees we noted differences between the sick and regular vacations as per the time assistance card and the sick and regular vacations discounted in the accumulative vacation card.</li></ul>
<b>Criteria</b>	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.</p>
<b>Cause of Condition</b>	<p>There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.</p>
<b>Effect of Condition</b>	<p>The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.</p>
<b>Recommendation</b>	<p>We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.</p>
<b>Management Response</b>	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

**Finding Reference**      **02-05**

**Requirement**              **Expenditures for Goods and Services and Account Payables –  
Purchasing and Receiving**

**Statement of Condition**    During our examination of the Municipality's procedures related to the purchasing and receiving process we examined sixty (60) disbursement vouchers and we noted the following situations:

- a. Five (5) disbursement vouchers did not have an approved and pre-numbered requisition. Also, in one (1) disbursement voucher three (3) requisitions were not approved.
- b. In three (3) disbursement vouchers the invoice was not signed by the supplier.
- c. Three (3) disbursements voucher did not have all invoices stamped as paid. Also, in one (1) disbursement voucher all the documents were not marked as paid.
- d. In nine (9) cases the receiving report weren't signed by employees who had knowledge of the receiving of goods.
- e. One (1) disbursement voucher was not available for our examination.
- f. Two (2) cancelled check were not available for our examination.
- g. Two (2) purchase orders were issued after the Municipality received the goods.

**Criteria**

The Revised Regulations on Standards for the Municipalities of Puerto Rico establish in Chapter four (IV) that the Finance Director will be responsible to account and realize disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>02-05 (Continued)</b>
<b>Cause of Condition</b>	The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.
<b>Effect of Condition</b>	The Municipality is not in compliance with Chapter Four (IV) and Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase off goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed that limits.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-06</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>Cash Management</b>
<b>Statement of Condition</b>	<p>We realized the Cash Management Tests and after our procedures were performed we found the following exceptions:</p> <ul style="list-style-type: none"><li>a. The Municipality requested funds that were not disbursed on a reasonable lapse of time.</li><li>b. The programs maintained a monthly average cash balance of \$31,551 in books.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, 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 sub grantees whenever advance payment procedures are used.</p>
<b>Cause of Condition</b>	<p>The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.</p>
<b>Effect of Condition</b>	<p>The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations 24, Section 85.20 (b) (7).</p>
<b>Recommendation</b>	<p>We recommend the 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.</p>
<b>Questioned Costs</b>	<b>None</b>
<b>Management Response</b>	<p>Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-07</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>Special Test- Housing Rehabilitation</b>
<b>Statement of Condition</b>	<p>During our audit of ten (10) housing rehabilitation files, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. In four (4) cases the rehabilitation contract did not specify which where the participant housing unit deficiencies to be corrected. The contract made reference to the Purchase Order.</li><li>b. In five (5) cases, we noted that the grantee did not perform the final inspection of the rehabilitation work during the period established in the housing rehabilitation contract. The inspections of the rehabilitation work were performed between five and ten months after the culmination of the rehabilitation.</li><li>c. In one (1) case the Municipality approved assistance to a participant for housing rehabilitation, but included materials to repair the cyclone fence.</li></ul>
<b>Criteria</b>	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.
<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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

**Finding Reference** 02-07 (Continued)

**Recommendation** We recommend the Program to establish the following procedures:

- a. Ascertain that the housing unit deficiencies be corrected and incorporated into the rehabilitation contract.
- b. Realize pre-rehabilitation inspection describing the housing unit deficiencies to be corrected.
- c. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with the time established in the contract.

**Questioned Costs** None

**Management Response** Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>02-08</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>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 periods ended 12/31/01, 3/31/02 and 6/30/02 reported an amount as credit withdrawals (line 11a) and did not reconcile with credit withdrawals recorded in the accounting records.
<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 funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.
<b>Cause of Condition</b>	The program accountant reported the credit withdrawals as cash disbursement during the period covered in the report.
<b>Effect of Condition</b>	The Municipality did not comply with the 24 CFR, Section 85.20 (b) (1) and OMB Circular A-87.
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure that the report only present the total credit withdrawal during the covered period.
<b>Questioned Costs</b>	None
<b>Management Response</b>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-09</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>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	<p>We performed the Equipment and Real Property Management Test and we found the following exceptions:</p> <ul style="list-style-type: none"><li>a. We noted that there were no adequate and accurate records to account for additions or dispositions of property and equipment during the fiscal year 2001-2002.</li><li>b. No tag or property ID was placed in two (2) equipment units.</li><li>c. The Property Subsidiary Ledger maintained by the program wasn't updated since the year 2000.</li></ul>
<b>Criteria</b>	<p>Subpart C, 24 CFR 85.32 (d) (1) requires that equipment records shall be accurately maintained and include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.</p>
<b>Criteria</b>	<p>Subpart C, 24 CFR 85.32 (d) (2), (3) establishes that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years and a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.</p>
<b>Cause of Condition</b>	<p>There are no adequate internal controls to maintain accurate property records.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1), (2) and (3).</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

<b>Finding Reference</b>	<b>02-09 (Continued)</b>
<b>Recommendation</b>	We recommend management to perform a physical inventory in order to actualize the property subsidiary. In addition, we recommended strengthening it's internal control procedures in order to assure that the program maintains proper records and adequately safeguards for the equipment to comply with program requirements and regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	Actually, the Federal Programs Office is updating the inventory to correct the deficiencies as soon as possible.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-10</b>
<b>Program</b>	<b>Federal Transit- Formula Grant Program (CFDA. No. 20.507); U.S. Department of Transportation</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized Cash Management Tests 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>Criteria</b>	Code of Federal Regulations, 49 CFR Section 18.20 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 sub grantees 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>	The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations, 49 CFR Section 18.20.
<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>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-11</b>
<b>Program</b>	<b>Federal Transit- Formula Grant Program (CFDA. No. 20.507); U.S. Department of Transportation</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	The Quarterly Financial Status Reports (FSRs) for the fiscal year 2001-02 were not available for our examination.
<b>Criteria</b>	Code of Federal Regulation, 49 CFR 19.41(b) states that the grantee will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all non-construction grants and for construction grants when required.
<b>Cause of Condition</b>	The Municipality record retention failed to permit access to the financial records.
<b>Effect of Condition</b>	The Municipality is not in compliance with retention and access requirement for records established in 49 CFR 19.41 (b).
<b>Recommendation</b>	We recommend that the Municipality should improve its record retention system in order to assure that the documents are available for audit procedures.
<b>Questioned Costs</b>	None
<b>Management Response</b>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-12</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We performed a Cash Management Test and after our procedures were performed we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the program maintained an excessive cash balance in books of approximately \$ 332,120. We noted that for twelve (12) months the leasing rate was under 95% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances.
<b>Criteria</b>	OMB Common Rules, Subpart C Section 85.20 (b) (7) requires a cash management system in order to minimize the elapsed time between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
<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>	The Municipality did not comply with OMB Common Rules Subpart C, 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. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate does not exceeds the 95% in order to avoid an excessive adjusted cash balance in books.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-13</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting – Financial Reporting</b>
<b>Statement of Condition</b>	During our audit of the Financial Reports, we found the following exceptions:  We were unable to determine if the report of Voucher for Payment of Annual Contributions and Operating Statement was made in accordance with the required accounting basis since the amounts in the report don't trace to the accounting records.
<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 funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.
<b>Cause of Condition</b>	The Municipality did not maintain an adequate internal control to assure that the Financial Reports are accurately prepared in order to assure that the information reported is in accordance with the accounting records.
<b>Effect of Condition</b>	The Municipality did not comply with the OMB Common Rules, Subpart C Section 85.20 (b) (1).
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are prepared in accordance with the required accounting basis.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditor's Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-14</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility of Individuals</b>
<b>Statement of Condition</b>	<p>We performed an eligibility test and examined a sample of forty (40) participant files. The following will summarize the exceptions found:</p> <ul style="list-style-type: none"><li>a. In one (1) case the income evidence was not updated in the participant files.</li><li>b. In twelve (12) cases there was no certification of Social Security benefits. Also, in three (3) cases the ASUME certification was not included.</li><li>c. In five (5) cases there was no evidence of expenses related to deductions from annual income as requested by the Regulation.</li><li>d. In sixteen (16) cases there was no Privacy Act Notice form signed by the head of household. Also, in two (2) cases the Privacy Act Notice did not establish the date they were signed.</li><li>e. In eleven (11) cases some members of the family who are at least 18 years old did not sign the Privacy Act Notice and/or other release forms included in the participant's file.</li><li>f. In four (4) cases there was no evidence of the Department of Labor Certification. Also, in one (1) case there was no evidence of Certification of Nutritional or Economic Assistance.</li><li>g. In eleven (11) cases the related documentation to support income were issued more than sixty days prior to the Voucher's date.</li><li>h. In one (1) case the addendum to the contract corresponding to the fiscal year 2001-2002 was not included in the participant's file.</li></ul>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02- 14 (Continued)</b>  i. In one (1) case a participant's application was not filled during the staff interview.  j. In all forty (40) cases examined there was no evidence the PHA staff provided to the Head of Household a Release Form to obtain information from third parties.
<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, it requires 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. Implement internal control procedures to assure that the participant's files include complete and updated documentation as required by federal agencies.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation. In the case of the item J., we implement the recommendation immediately.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-15</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Reasonable Rent</b>
<b>Statement of Condition</b>	<p>During our verification of forty (40) participant files we noted the following:</p> <ul style="list-style-type: none"><li>a. We noted that the document of reasonable rent determination was incomplete in one (1) case.</li><li>b. In one (1) case there was an increase in the rent of the location under contract and the PHA didn't document the basis for the determination of reasonable rent for the new location. Also, in one (1) case the participant moved to other location with a different rent and the reasonable rent wasn't determined.</li><li>c. In seven (7) newly leased units and in three (3) cases of continued occupancy no determination of reasonable rent was made.</li></ul>
<b>Criteria</b>	<p>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 paid to the owner is reasonable. In addition, the rent paid to the owner may not exceed the reasonable rent as most recently determined or re-determined by PHA.</p>
<b>Cause of Condition</b>	<p>The Federal Program Department did not maintain adequate controls to document the basis for the determination of the reasonable rent paid to the owner.</p>
<b>Effect of Condition</b>	<p>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.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-15 (Continued)</b>
<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>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-16</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Quality Standards Inspections and Housing and Quality Standards Enforcement</b>
<b>Statement of Condition</b>	During our examination we noted the following situations: <ul style="list-style-type: none"><li>a. We examined forty (40) participant files and we noted that on twenty (20) files the Municipality did not document the time frame that the owner had to correct the deficiencies noted in the inspections.</li><li>b. We examined forty (40) participant files and we noted that on three (3) files the Municipality noted deficiencies in the initial inspection; nevertheless, the Municipality formalized a HAP contract to rent those units. There is no evidence on the file that shows that the deficiencies were corrected before the formalization of the HAP contract.</li><li>c. We noted that during the fiscal year 2001-2002 the Municipality only realized three (3) Quality Control re-inspections. For those Quality Control re-inspections the Municipality did not complete the inspections Form HUD 52580. Also, two of that Quality Control re-inspections were performed after the three (3) months period required by the regulation.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, 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 re-inspections, and must document a unit inspection report (Form HUD 52580).
<b>Cause of Condition</b>	The Management does not have adequate internal control procedures to assure that the leased units were subject to an annual inspection and documented them in a unit inspection report.
<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).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-16 (Continued)</b>
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that inspections are performed and properly documented in Form HUD 52580.
<b>Questioned Costs</b>	None
<b>Management Response</b>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-17</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) 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>	<p>During our verification of forty (40) participant files we noted the following deficiencies:</p> <p>a. On eight (8) participant files there was no evidence that the Municipality followed up the deficiencies noted on the unit inspections.</p>
<b>Criteria</b>	<p>Code of Federal Regulations 24, 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 HAPs.</p>
<b>Cause of Condition</b>	<p>Management does not have adequate internal control procedures to assure that in all cases they must document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection, and that they perform and document the re-inspections to assure that PHA required repairs were completed.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404.</p>
<b>Recommendation</b>	<p>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 perform and document the re-inspections to assure that PHA-required repairs were completed.</p>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

**Finding Reference**      **02-17 (Continued)**

**Questioned Costs**      None

**Management Response**      The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-18</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The Municipality did not maintain an up-to-date utility schedule for the audit period ending June 30, 2002. The last time the PHA reviewed its utility allowance schedule was in 1999.
<b>Criteria</b>	Code of Federal Regulations 24, Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review the utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent (10%) or more for a utility category or fuel type since the last time utility allowance was reviewed.
<b>Cause of Condition</b>	The Municipality did not document the evidence necessary to verify that the utility allowance study has been done properly to determine if there has been a change of 10 % or more in utility rate.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.517.
<b>Recommendation</b>	The Municipality should document properly the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditor's Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-19</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Selection from the Section 8 Waiting List</b>
<b>Statement of Condition</b>	During our waiting list test we found the following exceptions: <ul style="list-style-type: none"><li>a. The Waiting List does not have the Qualification for any local preference nor the racial or ethnic designation of the Head of Household.</li><li>b. The PHA does not select the family from the top of the waiting list. In the cases examined the families are randomly selected.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal control procedures to assure that the waiting list include all information required by Federal Regulation and to assure that the participants were selected from the top of the waiting list.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference**            **02-19 (Continued)**

**Recommendation**            We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend the management to establish proper internal control so that the waiting list includes all information as required by Federal Regulations. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.

**Questioned Costs**            None

**Management Response**      The Municipality concurs with the finding. Auditor's Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-20</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting - Performance Reporting</b>
<b>Statement of Condition</b>	The SEMAP report was not available for inspection.
<b>Criteria</b>	Code of Federal Regulations 24, Section 985.3 states that under SEMAP, PHAs submit an annual certification, Form HUD-52648 (OMB No. 2577-0215) to HUD concerning their compliance with program requirements under fourteen indicators of performance. Finally, HUD will perform on-site visits and verify the Independent Auditor's Annual Audit Report to assure the compliance with this requirement.
<b>Cause of Condition</b>	The Municipality doesn't have adequate procedures to assure that the appropriate evidence is provided to the auditors.
<b>Effect of Condition</b>	Audit procedures to ensure that the Municipality is in compliance with the Federal Regulations couldn't be applied.
<b>Recommendation</b>	The Municipality should adequately document and file any evidence concerning reports documents prepared to comply with the Federal Regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditors Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-21</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting - Special Reporting</b>
<b>Statement of Condition</b>	We did not find evidence supporting that the HUD 50058 Family Report Form (OMB No. 2577-0083) was transmitted electronically to HUD from July 1, 2001 to June 30, 2002 as required by Federal Regulation.
<b>Criteria</b>	Code of Federal Regulations 24, Part 908 requires to the PHA to submit HUD-50058 Form Family Report electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.
<b>Cause of Condition</b>	The person in charge to submit the form HUD-50058, Family Report to HUD had transmission problems during the year. The Municipality did not correct the situation promptly.
<b>Effect of Condition</b>	The Municipality is in not compliance with Code of Federal Regulations 24, Part 908.
<b>Recommendation</b>	We recommend to the Municipality to establish internal control procedures to assure that any transmission problem with the HUD system is corrected in a timely manner.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditors Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-22</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility of Individuals</b>
<b>Statement of Condition</b>	<p>During our verification of forty (40) participant files we noted the following exceptions related to the Housing Assistance Payment calculation:</p> <ul style="list-style-type: none"><li>a. In eleven cases (11) the PHA didn't use the correct Fair Market Rent or Payment Standard to calculate HAP.</li><li>b. We noted computation errors in seven (7) cases due to lack of information pertaining income calculations.</li><li>c. We found mathematical errors in the Family Report computer software in two (2) participant files for HAP calculations. The Municipality did not calculate manually the HAP to verify the accuracy of the computer software computation.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24 CFR, Section 982.503 establish how the PHA must determine and use the payment standard. Code of Federal Regulations 24 CFR, Section 982.505 establishes the procedures to be followed in order to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, Chapter six (6) establishes procedures for the HAPs calculation.</p>
<b>Cause of Condition</b>	<p>The Federal Programs Department did not maintain consistency and monitoring procedures in order to assure that the Housing Assistance Payment standard used in the Family Report calculation is in accordance with the actualized HUD Fair Market Rent tables. Also, there's the need for internal control procedures to detect incorrect computation of HAPs.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.503 and 982.505.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

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

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-22 (Continued)</b>
<b>Recommendation</b>	We recommend establishing monitoring procedures to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with the finding. Auditors Recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-04	14.218 14.855 14.857	<u>The Municipality did not maintain adequate cash management procedures.</u>  Situation still prevails. See current year findings number 02-16 and 02-12.
01-05	14.218	<u>The Municipality did not use at least 70% of the funds over three years period to benefit low and moderate income persons.</u>  Full corrective action was taken.
01-06	14.218	<u>No appropriate documentation on housing rehabilitation files</u>  Situation still prevails. See current year finding number 02-07.
01-07	14.218	<u>Failure in the preparation of the Financial Report</u>  Situation still prevails. See current year finding number 02-08.
01-08	14.855	<u>No appropriate documentation on tenant files</u>  Situation still prevails. See current year finding number 02-14.
01-09	14.855 14.857	<u>The determination of reasonable rent was not documented in the participant file.</u>  Situation still prevails. See current year finding number 02-15.
01-10	14.855 14.857	<u>The evidence of quality control inspections was not documented in the participant file.</u>  Situation still prevails. See current year finding number 02-16.
01-11	14.855 14.857	<u>Failure in document the PHA requires correction of any cited HQS deficiencies within 30 calendar days of the inspection.</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		Situation still prevails. See current year finding number 02-17.
00-05	N/A	<u>The Municipality did not maintain adequate 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 update real property, personal property and infrastructure inventory, to comply with GASB 34 requirements.
00-07	14.218	<u>Funds requested by the Municipality were not disbursed on a reasonable time from the date they were received.</u>  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.
00-10	14.857	<u>Failure to submit Voucher for Payment of Annual Contributions and Operating Statement Form HUD-52681.</u>  Full corrective action was taken.
00-12	14.855	<u>Failure to submit Voucher for Payment of Annual Contributions and Operating Statement Form HUD-52681.</u>  Full corrective action was taken.
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>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

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 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.
98-2	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.
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.