

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CIDRA

AUDITORIA 2001-02

30 DE JUNIO DE 2002

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CIDRA

YEAR ENDED JUNE 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CIDRA

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the **Municipality of Cidra**, 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.

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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Cidra** 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.

INDEPENDENT AUDITORS' REPORT (Continued)

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Cidra**, 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.1853980 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$8,541,058	\$1,738,885		\$792,692			\$11,072,635
Cash with fiscal agent		655,136	\$2,204,453	6,456,721			9,316,310
Intergovernmental receivables	309,068	69,100					378,168
Municipal license taxes receivable	13,922						13,922
Federal grants receivable		91,216					91,216
Due from other funds	940,606	89,397					1,030,003
Other receivables	173,121						173,121
Property and equipment					\$26,918,899		26,918,899
Amount available in Debt Service Fund						\$2,204,453	2,204,453
Amount to be provided for retirement of general long-term debt						15,522,815	15,522,815
Total assets and other debits	\$9,977,775	\$2,643,734	\$2,204,453	\$7,249,413	\$26,918,899	\$17,727,268	\$66,721,542
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$646,264	\$96,428		\$171,242			\$913,934
Due to other funds		930,003		100,000			1,030,003
Due to other governmental entities	40,661					\$1,035,301	1,075,962
Deferred municipal license tax revenues	8,731,078						8,731,078
Deferred federal grant revenues		251,716					251,716
General obligation bonds						10,980,000	10,980,000
Note payable						325,000	325,000
Accrued landfill obligations						2,792,290	2,792,290
Accrued compensated absences						2,594,677	2,594,677
Total liabilities	9,418,003	1,278,147		271,242		17,727,268	28,694,660
Fund equity:							
Investment in general fixed assets					\$26,918,899		26,918,899
Fund balances:							
Reserved for encumbrances	153,471	1,048,275		207,498			1,409,244
Reserved for debt service			2,204,453				2,204,453
Unreserved:							
Designated for specific fund purposes		317,312		6,770,673			7,087,985
Undesignated	406,301						406,301
Total fund equity (deficit)	559,772	1,365,587	2,204,453	6,978,171	26,918,899		38,026,882
Total liabilities and fund equity	\$9,977,775	\$2,643,734	\$2,204,453	\$7,249,413	\$26,918,899	\$17,727,268	\$66,721,542

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
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	
REVENUES					
Property taxes	\$3,865,636		\$984,121		\$4,849,757
Municipal license taxes	8,043,187				8,043,187
Licenses and permits	772,188				772,188
Intergovernmental	2,916,296	\$1,456,366		\$592,642	4,965,304
Rent of property	9,847				9,847
Fines and penalties	8,375				8,375
Interest	585,489				585,489
Federal grants		2,615,905			2,615,905
Program Income		38,009			38,009
Miscellaneous	465,662	8,776			474,438
Total revenues	<u>16,666,680</u>	<u>4,119,056</u>	<u>984,121</u>	<u>592,642</u>	<u>22,362,499</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,590,124				1,590,124
General government	5,562,585	1,052,468			6,615,053
Public safety	926,184				926,184
Public works	4,491,729	1,809,425			6,301,154
Public health and sanitation	1,091,733				1,091,733
Welfare		881,129			881,129
Economic development	120,274				120,274
Recreation	539,468				539,468
Human services	721,204				721,204
Other				6,690	6,690
Debt service:					
Principal retirement	95,000		770,000		865,000
Interest	21,410		656,048		677,458
Capital outlays	230,558	651,427		446,631	1,328,616
Total expenditures	<u>15,390,269</u>	<u>4,394,449</u>	<u>1,426,048</u>	<u>453,321</u>	<u>21,664,087</u>
Excess (deficiency) of revenues over (under) expenditures	1,276,411	(275,393)	(441,927)	139,321	698,412
OTHER FINANCING SOURCES (USES):					
Operating transfers from/to other funds	(269,221)	(370,397)		639,618	-
Proceeds from bond issuance		430,000			430,000
Total other financing sources (uses)	(269,221)	59,603		639,618	430,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	1,007,190	(215,790)	(441,927)	778,939	1,128,412
Fund balances (deficit), beginning	(447,418)	1,581,377	2,646,380	6,199,232	9,979,571
Fund balances (deficit) , ending	<u>\$559,772</u>	<u>\$1,365,587</u>	<u>\$2,204,453</u>	<u>\$6,978,171</u>	<u>\$11,107,983</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
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)
REVENUES						
Property taxes	\$3,775,529	\$3,775,529	\$ -	\$1,006,743	\$984,121	(\$22,622)
Municipal license taxes	8,029,671	8,043,187	13,516			
Licenses and permits	686,777	772,189	85,412			
Intergovernmental	2,796,163	2,916,296	120,133			
Rent of property	9,181	9,847	666			
Fines and penalties	7,360	8,375	1,015			
Interest	581,282	585,489	4,207			
Miscellaneous	513,388	465,662	(47,726)			
Total revenues	<u>16,399,351</u>	<u>16,576,574</u>	<u>177,223</u>	<u>1,006,743</u>	<u>984,121</u>	<u>(22,622)</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,641,636	1,626,516	15,120			
General government	6,135,061	5,579,236	555,825			
Public safety	927,269	927,269	-			
Public works	4,584,149	4,570,877	13,272			
Public health and sanitation	1,092,068	1,091,733	335			
Economic development	120,307	120,274	33			
Recreation	543,021	542,566	455			
Human services	733,200	731,543	1,657			
Capital outlays	235,417	232,956	2,461			
Debt service:						
Principal retirement	95,000	95,000	-	790,732	770,000	20,732
Interest	23,002	21,410	1,592	216,011	656,048	(440,037)
Total expenditures and encumbrances	<u>16,130,130</u>	<u>15,539,380</u>	<u>590,750</u>	<u>1,006,743</u>	<u>1,426,048</u>	<u>(419,305)</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	269,221	1,037,194	767,973	-	(441,927)	(441,927)
OTHER FINANCING USES:						
Operating transfer to other fund	(269,221)	(269,221)	-			
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses	<u>-</u>	<u>767,973</u>	<u>767,973</u>			
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		149,110				
GAAP adjustments to revenues		90,107				
Fund balances (deficit), beginning		(447,418)			2,646,380	
Fund balances, ending		<u>\$559,772</u>			<u>\$2,204,453</u>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Cidra** (the Municipality) was established in 1917. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen 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 are 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 CIDRA**

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 CIDRA**

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 CIDRA**

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 CIDRA**

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 an 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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 CIDRA**

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 CIDRA**

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.

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

General Services Administration	\$ 2,123
Puerto Rico Telephone Company	38,365
Puerto Rico Aqueduct and Sewer Authority	<u>173</u>
Total	<u>\$ 40,661</u>

The Municipality reached an agreement with the Municipal Revenue Collection Center for the payment of a debt on a long-term basis. This liability is presented in the General Long-term Debt Account Group because it will not be funded with available expendable financial resources as of June 30, 2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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 8.08% for real property and 6.08% 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 1.25% 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 \$ 210,240. Such amount was included as intergovernmental receivables in the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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	\$1,422,635
Certificates of deposit (90 days or less)	<u>9,650,000</u>
Total cash and cash equivalents	<u>\$ 11,072,635</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

7. PROPERTY AND EQUIPMENT:

A summary of changes in the General Fixed Assets Account Group is as follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2002</u>
Land	\$ 2,996,207	\$ -	(\$ -)	\$ 2,996,207
Buildings	15,728,030	-	(-)	15,728,030
Equipment	<u>7,145,838</u>	<u>1,226,794</u>	<u>(177,970)</u>	<u>8,194,662</u>
Total	<u>\$ 25,870,075</u>	<u>\$ 1,226,794</u>	<u>(\$ 177,970)</u>	<u>\$ 26,918,899</u>

8. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2001	\$ 11,320,000
Debt issued	430,000
Principal retirements	<u>(770,000)</u>
Balance at June 30, 2002	<u>\$ 10,980,000</u>

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

<u>Type of bonds</u>	<u>Maturity date</u>	<u>Original amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2002</u>
1986 Series	7-1-02	\$ 565,000	8.2% to 9.0%	\$ 65,000
1992 Series	7-1-06	1,530,000	3.2% to 6.3%	755,000
1993 Series	7-1-03	1,120,000	0.0% to 8.0%	305,000
1996 Series	7-1-06	1,435,000	4.8% to 6.7%	855,000
1997 Series	7-1-21	605,000	4.8% to 6.7%	560,000
1998 Series	7-1-03	585,000	4.8% to 6.3%	260,000
1999 Series	7-1-24	710,000	0.0% to 8.0%	690,000
1999 Series	7-1-24	260,000	0.0% to 8.0%	250,000
2000 Series	7-1-25	555,000	0.0% to 8.0%	460,000
2000 Series	7-1-25	6,440,000	0.0% to 8.0%	6,350,000
2001 Series	7-1-06	430,000	5.0% to 8.0%	<u>430,000</u>
Total general obligation bonds				<u>\$ 10,980,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

8. GENERAL OBLIGATION BONDS (CONTINUED):

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

Year ended June 30	Total
2003	\$ 900,000
2004	915,000
2005	670,000
2006	720,000
2007	645,000
Thereafter	<u>7,130,000</u>
Total	<u>\$10,980,000</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.

9. NOTES PAYABLE:

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

Balance at July 1, 2001	420,000
Debt issued	-
Payments during the current year	<u>(95,000)</u>
Balance at June 30, 2002	<u>\$ 325,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. NOTE PAYABLE (CONTINUED):

Note payable at June 30, 2002 is 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>
2000 Series	7-1-05	\$505,000	7.8% to 8.0%	<u>\$ 325,000</u>
Total note payable				<u>\$ 325,000</u>

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

<u>Year ended June 30</u>	<u>Total</u>
2003	\$ 100,000
2004	110,000
2005	<u>115,000</u>
Total	<u>\$ 325,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. 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.

11. 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:

Years of Service	Participant Age	Pension Benefits
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 CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. RETIREMENT PLAN (CONTINUED)

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

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
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 CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. 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 \$ 462,000. This amount represent 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 CIDRA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. 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.

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represents temporary loans between the funds. The amount reported in the General Fund as due from other funds represents advances made to the Special Revenue Fund to temporarily cover federal programs expenditures.

Operating transfers

Operating transfers represent transfers from the General Fund to the Special Revenue and the Capital Projects Funds to specific purposes designated by the management.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

13. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site since 1994, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with statement No. 18 of the Governmental Accounting Standards Board, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Municipality has performed a study of the activities that need to be implemented at the landfill to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$ 997,000 and \$ 2,152,000 as the Municipality's estimated total current cost for landfill closure and postclosure care costs, respectively. As of June 30, 2002, these estimated closure and postclosure care costs were adjusted to reflect the effect of inflation. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. Through June 30, 2002, the Municipality has incurred \$ 943,883 related to the landfill closure. The balance of total closure and postclosure costs of \$ 2,792,290, is reported in the General Long-term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002. The Municipality expects to finance a significant amount of this obligation with the issuance of general obligation bonds.

14. 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 several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Section 8 Housing Choice Vouchers :	14.871		\$ 869,150
Community Development Block Grants- Entitlement Grants	14.218	B-00-MC-72-0021 B-01-MC-72-0021	906,857
Pass-through Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants:			
State Block Grant Program	14.228	98-FD-17	3,741
State Block Grant Program	14.228	99-FD-17	65,704
			69,445
Pass-through Commonwealth of Puerto Rico Department of the Family: Emergency Shelter Grants Program	14.231	S-99-DC-72-0001	8,270
Total U.S. Department of Housing and Urban Development			1,853,722

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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>Federal Expenditures</u>
U.S DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grants	10.433		2,754
Rural Business Enterprise Grants	10.769		17,611
Rural Self-Help Housing Technical Assistance	10.420		<u>28,567</u>
Total U.S. Department of Agriculture			<u>48,932</u>
U.S DEPARTMENT OF JUSTICE:			
Universal Hiring Program	16.710		352,368
Pass-through the Commonwealth of P.R. Department of Justice Local Law Enforcement Block Grants Program	16.592	NOT AVAILABLE	139,301
Total U.S. Department of Justice			<u>491,669</u>
U.S DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico Highway Authority Formula Transit: Formula Grants	20.507		463,879
Pass-through the Commonwealth of Puerto Rico Highway Safety Commission Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601		<u>62,115</u>
Total U.S. Department of Transportation			<u>525,994</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditu res
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care and Development Block Grant	93.575		18,035
Total U.S. Department of Health and Human Services			18,035
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$2,938,352

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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 Cidra** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Per Schedule of Expenditures of Federal Awards	\$ 2,938,352
Non federal programs included in the Special Revenue Fund in the general purpose financial statements	<u>1,456,097</u>
Per Special Revenue Fund in the general purpose financial statements	<u>\$ 4,394,449</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- 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 Cidra
Cidra, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Cidra** as of and for the year ended June 30, 2002, and have issued our report thereon dated November 27, 2002, which was unqualified. 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 Cidra'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 Cidra'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 a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Cidra's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item **02-01**.

**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 the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the accompanying Schedule of Findings and Questioned Costs is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Cidra** 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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 27, 2002

Stamp No. 1853981 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 Cidra
Cidra, Puerto Rico**

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Cidra'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 Cidra's** compliance with those requirements.

In our opinion, the **Municipality of Cidra** 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items **02-02** through **02-10**.

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

Internal Control Over Compliance

The management of the **Municipality of Cidra** 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 Cidra'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 matter involving the internal control over compliance and its operation that we consider to be reportable condition. 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 Cidra's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as items **02-02** through **02-10**.

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, we believe that reportable condition described above is not a material weakness. 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 Cidra** in a separate letter dated February 14, 2003.



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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 14, 2003

Stamp No. 1853982 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Unqualified**

Internal control over financial reporting:
 Material weakness identified? Yes No X
 Reportable conditions identified not considered to be material weaknesses? Yes None reported X

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:
 Material weakness identified? Yes No X
 Reportable conditions identified not considered to be material weaknesses? Yes X None reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant – Entitlement Grants
14.871	Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes <input checked="" type="checkbox"/> <u>X</u> No <input type="checkbox"/>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference **02-01**

Requirement **Personnel Files and Payroll Related Procedures**

Statement of Condition We performed a payroll test and examined a sample of 25 personnel files. The following will summarize the deficiencies found:

- a. Five (5) of the examined files did not have Certificate of No Penal Record.
- b. Eight (8) of the examined files did not have a copy of Social Security Card.
- c. Three (3) of the examined files did not have an Academic Background Certifications/Diplomas.
- d. Eight (8) of the examined files did not include the Drug-Free Workplace Certification.
- e. Five (5) of the examined files did not have an Employment Application Form.
- f. Five (5) of the examined files did not have Health Certificates.
- g. Fourteen (14) of the examined files did not have Photo Identification.
- h. Three (3) of the examined files did not have a Birth Certificates.
- i. Eight (8) of the examined files did not have Immigration Form (I-9).

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference 02-01 (Continued)

Criteria Article 11.023 of State Act Number 81 of August 30, 1991 states that Municipality should maintain a file for each of their employees that reflect a completed record from their entrance date until their service's ending.

Cause of Condition There is no internal control procedures implemented in order to assure that personnel files include all required documents.

Effect of Condition The Municipality does not maintain an adequate control over the personnel files.

Recommendation We recommend that the Municipality should review personnel files to assure completeness of the documentation as required by law and periodically perform follow-up procedures in order to update such files.

Questioned Costs None

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-02

Program Community Development Block Grants - Entitlement Program (CFDA. No. 14.218); U.S. Department of Housing and Urban Development

Requirement Davis-Bacon Act

Statement of Condition During our Davis Bacon Act test for the Community Development Block Grants - Entitlement Program we noted the following situations:

- a. We noted that for the contract number 2002-000323, the contractor did not submit the weekly payroll corresponding to June 8, 2002.
- b. For the same contract number, we did not find any evidence of on-site visits performed to monitor the classification of the workers and their wage rates.
- c. Also, we did not find written evidence in the file of the monitoring process.

Criteria Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.

Cause of Condition Municipality did not apply monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.

Effect of Condition Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-02 (continued)**

Requirement **Davis-Bacon Act**

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee. Also, interview contractor and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any. Also, we recommend management to communicate contractors promptly any failure found in the payroll process.

Questioned Costs None

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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-03
Program	Community Development Block Grants - Entitlement Program (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provision test we noted that: one (1) contract did not have the provision that include compliance with the Copeland "Anti-Kickback" Act; one (1) contract did not include a clause to comply with the executive order 11246 "Equal Employment Opportunity"; one (1) contract did not include provisions to comply with Section 103 and 107 of the Contract Work Hours and Safety Standards Act; two (2) contracts did not include provisions for granting access to GAO or other federal agencies to books and documents; one (1) contract did not include provision for compliance with Energy Policy and Conservation Act; and two (2) contracts did not include provisions for retention of all required records for three years.
Criteria	Subpart C, 24 CFR, Part 85.36 (i) (1-13), states that grantees and sub grantee's contracts must contain provisions in paragraph (i) of this section.
Cause of Condition	The Municipality did not maintain appropriate procurement standards procedures in order to assure that contract clauses comply with federal requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation, Subpart C, 24 CFR, Part 85.36 (i) (1-13).
Recommendation	We recommend that the Municipality should strength its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
Questioned Costs	None
Management Response	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-04
Program	Community Development Block Grants – Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Rehabilitation
Statement of Condition	During our examination of sixteen (16) Housing Rehabilitation Participant's files we noted the following: <ul style="list-style-type: none">a. In twelve (12) instances the files did not contain an evaluation sheet signed by Municipality's inspector to ascertain that the pre-rehabilitation inspection was performed or a document that describes the participant housing unit deficiencies to be corrected.b. One (1) file did not contain evidence of inspections realized by the program in order to verify if the rehabilitation work was carried out in accordance with the specifications.c. One (1) file did not include evidence of the family income.d. Eight (8) files did not include evidence of the final inspection in order to assure the rehabilitation work was realized according to the agreement.
Criteria	24 CFR, Section 570.506, states that when CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed. Also, 24 CFR, Sections 91.220 and 570.301, establishes that all the activities that a grantee undertakes during their CDBG program year must be identified in an action plan or an amended action plan.
Cause of Condition	The Municipality did not maintain adequate internal controls procedures in order to assure that the assistance for housing rehabilitations were used for applicable participants and allowed activities
Effect of Condition	The Municipality is not in compliance with 24 CFR, Section 570.506 and 24 CFR Sections 91.220 and 570.301.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-04 (Continued)
Program	Community Development Block Grants – Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Rehabilitation (Continued)
Recommendation	We recommend the Program to establish the following procedures: <ol style="list-style-type: none">Realize pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected.Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contracts specifications.Assure that all participant files include all required documentationSuch as eligibility determination and adequate evidence of family income.
Questioned Costs	None
Management Response	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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-05**

Program **Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development**

Requirement **Cash Management**

Statement of Condition We realized Cash Management Test and after our procedures we found that the Program maintained an excessive average cash balance in books.

Criteria OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.

Cause of Condition The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.

Effect of Condition The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).

Recommendation We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.

Questioned Costs None

Management Response 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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-06**

Program **Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development**

Requirement **Performance Reporting**

Statement of Condition We found that the program did not maintain evidence that support the answers of the SEMAP report.

Criteria Code of Federal Regulations 24, CFR, Section 985 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 14 indicators of performance. Finally, HUD will realize on site visits and verify the independent auditors annual audit reports to assure the compliance with this requirement.

Cause of Condition The program did not maintain adequate controls to assure that it has sufficient evidence to support the compliance with the answers detailed in the SEMAP Report submitted to HUD.

Effect of Condition The Municipality is not compliance with Code of Federal Regulations 24, Section 985.3.

Recommendation We recommend the Municipality to establish adequate internal controls in order to assure that the program complied with federal regulations and maintain proper records to support SEMAP Report answers.

Questioned Costs None

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

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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

Program Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development

Requirement Eligibility Test

Statement of Condition We performed an eligibility test and examined a sample of forty-one (41) participant files. The following summarize the deficiencies found:

- a. Twenty-four (24) files did not include an application form completed by the PHA staff.
- b. Twenty-one (21) files did not include a release form to allow the PHA to obtain information from third parties.
- c. Forty (40) files did not include a Federal-prescribed general release form for employment information.
- d. Twenty (20) files did not include a Privacy Act Notice.
- e. In twenty-three (23) cases the members of the family with 18 years or older did not sign the release forms to allow the PHA to obtain information from third parties related to employment information.
- f. Five (5) files did not contain proper independent verification of the tenants' income.
- g. In the forty-one (41) cases the eligibility determination was not approved by an authorized official using the documentation from third parties

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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)**

Program **Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development**

Requirement **Eligibility Test (continued)**

Statement of Condition (continued)

- h. There were four (4) tenant files which did not contain complete evidence supporting tenant's income included in the Family Report.
- i. There were twelve (12) tenant files which did not contain accurate evidence or the evidence available have errors and did not agree with the Family Report.
- j. There were thirteen (13) tenant files which did not provide the necessary information to determine how the tenant was selected from the waiting list.
- k. There were twelve (12) tenant files which did not contain the family income and composition reexamination on a timely basis.
- l. There was one (1) tenant file without the last reexamination.
- m. Two (2) of the files did not contain rent reasonableness documentation.
- n. Eight (8) of the files did not document adequately the determination of reasonable rent.
- o. In twenty-four (24) of the files the annual inspection was not realized on a timely basis or the files did not contain documentation indicating the required unit inspections had been performed.

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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)**

Program **Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development**

Requirement **Eligibility Test (continued)**

Statement of Condition (continued)

- p. There were thirty-one (31) tenant files which did not contain the quality control inspection.
- q. There were three (3) files which did not include a deadline in the letter sent to the owner with the deficiencies found in the inspection.
- r. There were three (3) files which did not contain evidence which supports that the repairs were realized before the deadline.
- s. In the forty-one (41) cases there was no exist evidence of the electronically submission of the Family Report.

Criteria Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that 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 Federally prescribed general release form for employment information and a Privacy Act Notice.

Cause of Condition The Municipality does not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617.

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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)
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Eligibility Test (continued)
Recommendation	We recommend the Program to establish the following procedures: <ul style="list-style-type: none">a. Provide an application form to be completed by the participant and signed by all family members who are at least 18 years old.b. Provide a Federally prescribed general release form for employment information and a Privacy Act Notice to be signed by all members of the family who are at least 18 years old.c. Implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.
Questioned Costs	None
Management Response	Appropriate action will be taken to insure that the Program complies with the applicable regulations.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-08
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test - Selection from the Section 8 Waiting List
Statement of Condition	During our waiting list examination, we noted that the PHA did not maintain a waiting list in accordance with HUD regulations that is easily auditable.
Criteria	Code of Federal Regulations 24, Section 982.204 states the waiting list proper organization and preparation.
Cause of Condition	The program did not maintain adequate internal control procedures to assure the proper preparation of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR section 982.204.
Recommendation	The program should prepare and organize the waiting list following the parameters established in the Administrative Plan.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-09
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Reporting - Financial Reporting
Statement of Condition	During our examination of financial reporting requirements we noted the following exception: a. We noted that the Voucher for Payment of Annual Contribution and Operation Statement did not trace to the accounting records.
Criteria	OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), require that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. Also, Subpart C, 24 CFR 85.20 (b) (2), state that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records.
Effect of Condition	Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1 and 2).
Recommendation	We recommend to the Municipality's Management to implement controls procedures over Section 8 Rental Program financial activities in order to assure the accountability of all financial transactions, including accounting records in accordance with Generally Accepted Accounting Principles. Such action should permit the preparation of accurate, current, and complete financial reports.
Questioned Costs	None
Management Response	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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-10
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	During our Utility Allowance Schedule Test, we noted that the PHA did not maintain an updated utility schedule.
Criteria	Code of Federal Regulations 24, Sections 982.503, 982.517 and 982.405 states that the PHA must develop, review and maintain an updated utility schedule.
Cause of Condition	The PHA did not maintain an updated utility schedule for the determination that the utility allowance is reasonable.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 982.503, 982.517 and 982.405.
Recommendation	We recommend the PHA develop, review and maintain an updated utility schedule. It must review the utility rate it has obtained within the last twelve (12) months, and adjust its allowance schedule to reflect changes of 10% or more.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

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)
01-02	14.218	<p><u>Failure to document the Housing Rehabilitation Participant's files</u></p> <p>No corrective action has been taken. The Municipality will improve the procedures established for housing rehabilitation activities.</p>
00-02	14.228	<p><u>The Municipality should review their procedures for submitting reports in order to submit the reports on a timely manner</u></p> <p>Full corrective action was taken.</p>
00-03 00-05	14.857 14.855	<p><u>The Municipality should implement procedures to provide for the preparation of Form HUD-52681 by the end of the fiscal year in order to comply with the established federal regulation.</u></p> <p>No corrective action has been taken. The Municipality is developing a reporting calendar to ascertain that all deadlines for different Federal programs are met</p>
00-07	14.857 14.855	<p><u>The Municipality should assure that the required documentation be included in the participant file prior to make any subsidy payment.</u></p> <p>No corrective action has been taken. The Municipality contracted more employees to work strongly with the Section 8 Program weaknesses, including matters related to participant files.</p>
00-08	All Programs	<p><u>The Municipality should review employees file to assure completeness of the required documentation.</u></p> <p>No corrective action has been taken. The Municipality is developing will update such files.</p>