

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE COAMO

AUDITORIA 2001-02

30 DE JUNIO DE 2002

OFFICE OF THE COMPTROLLER
GENERAL OF THE COMMONWEALTH OF PUERTO RICO
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UNIVERSITY OF PUERTO RICO

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

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COAMO

YEAR ENDED JUNE 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF COAMO

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 Coamo
Coamo, Puerto Rico**

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

The **Municipality of Coamo** accounting system and subsidiary records of property and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

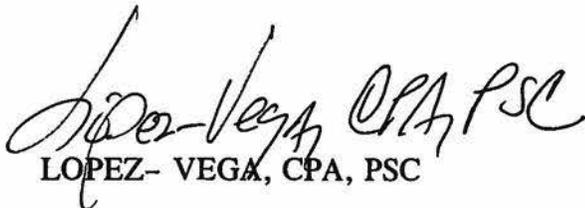
We did not obtain responses from one legal counsel regarding the corroboration of information furnished by management concerning litigation, claims and assessments and unasserted claims and assessments. Accordingly, we were unable to obtain sufficient competent evidential matter with respect to outstanding litigations and unasserted claims and assessments that might have a significant impact in the general purpose financial statements of the Municipality as of June 30, 2002.

INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group and the 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 Coamo** 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 October 30, 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 Coamo**, 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
October 30, 2002

Stamp No. 1853992 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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	\$1,675,343	\$1,226,248		\$3,129,161			\$6,030,752
Cash with fiscal agent		460,990	\$1,097,231	3,142,839			4,701,060
Intergovernmental receivables	593,084	79,096					672,180
Federal grants receivable		323,040					323,040
Due from other funds	206,416						206,416
Other receivables	16,556						16,556
Property and equipment					\$19,601,759		19,601,759
Amount available in Debt Service Fund						\$1,097,231	1,097,231
Amount to be provided for retirement of general long-term debt						15,544,221	15,544,221
Total assets and other debits	\$2,491,399	\$2,089,374	\$1,097,231	\$6,272,000	\$19,601,759	\$16,641,452	\$48,193,215
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$147,609	\$316,154					\$463,763
Due to other funds		206,416					206,416
Due to other governmental entities	56,152					221,401	277,553
Deferred municipal license tax revenues	612,075						612,075
Deferred federal grant revenues		742,853					742,853
General obligation bonds						5,425,000	5,425,000
Notes payable						9,110,000	9,110,000
Advance property tax debt						1,018,524	1,018,524
Accrued compensated absences						866,527	866,527
Total liabilities	815,836	1,265,423				16,641,452	18,722,711
Fund equity:							
Investment in general fixed assets					19,601,759		19,601,759
Fund balances:							
Reserved for encumbrances	339,995						339,995
Reserved for debt service			1,097,231				1,097,231
Unreserved:							
Designated for specific fund purposes		823,951		6,272,000			7,095,951
Undesignated	1,335,568						1,335,568
Total fund equity	1,675,563	823,951	1,097,231	6,272,000	19,601,759		29,470,504
Total liabilities and fund equity	\$2,491,399	\$2,089,374	\$1,097,231	\$6,272,000	\$19,601,759	\$16,641,452	\$48,193,215

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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	\$2,072,282		\$535,697		\$2,607,979
Municipal license taxes	1,116,370				1,116,370
Licenses and permits	1,229,550				1,229,550
Intergovernmental	4,290,405	\$742,221		\$2,468,652	7,501,278
Rent of property	194,720				194,720
Fines and penalties	4,150				4,150
Interest	221,634				221,634
Federal grants		1,214,936			1,214,936
Miscellaneous	667,199	24,683			691,882
Total revenues	<u>9,796,310</u>	<u>1,981,840</u>	<u>535,697</u>	<u>2,468,652</u>	<u>14,782,499</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	750,099				750,099
General government	2,938,222	855,505			3,793,727
Public safety	722,651	86,834			809,485
Public works	1,260,126	52,863			1,312,989
Public health and sanitation	1,595,966	49,359			1,645,325
Welfare		597,343			597,343
Economic development	97,243				97,243
Recreation	372,383				372,383
Human services	90,353				90,353
Principal retirement			445,000		445,000
Interest			747,928		747,928
Capital outlays	46,460	371,336		1,606,353	2,024,149
Total expenditures	<u>7,873,503</u>	<u>2,013,240</u>	<u>1,192,928</u>	<u>1,606,353</u>	<u>12,686,024</u>
Excess (deficiency) of revenues over (under) expenditures	1,922,807	(31,400)	(657,231)	862,299	2,096,475
OTHER FINANCING SOURCES (USES):					
Operating transfers to other funds	(1,393,511)				(1,393,511)
Operating transfers from other funds		652,111	741,400		1,393,511
Proceeds from bond issuance				2,825,000	2,825,000
Total other financing sources (uses)	<u>(1,393,511)</u>	<u>652,111</u>	<u>741,400</u>	<u>2,825,000</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	529,296	620,711	84,169	3,687,299	4,921,475
Fund balances beginning, as restated	<u>1,146,267</u>	<u>203,240</u>	<u>1,013,062</u>	<u>2,584,701</u>	<u>4,947,270</u>
Fund balances, ending	<u>\$1,675,563</u>	<u>\$823,951</u>	<u>\$1,097,231</u>	<u>\$6,272,000</u>	<u>\$9,868,745</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO
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	\$1,746,295	\$1,746,295	\$ -	\$456,806	\$535,697	\$78,891
Municipal license taxes	1,112,534	1,116,370	3,836			
Licenses and permits	1,219,356	1,229,550	10,194			
Intergovernmental	4,400,130	4,290,405	(109,725)			
Rent of property	194,769	194,720	(49)			
Fines and penalties	4,040	4,150	110			
Interest	187,392	221,634	34,242			
Miscellaneous	951,425	953,394	1,969			
Total revenues before carryover	9,815,941	9,756,518	(59,423)	456,806	535,697	78,891
Budgeted carryover (1)						
Total revenues	9,815,941	9,756,518	(59,423)	456,806	535,697	78,891
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	874,641	852,076	22,565			
General government	3,251,221	3,050,344	200,877			
Public safety	727,205	725,534	1,671			
Public works	1,334,516	1,280,218	54,298			
Public health and sanitation	1,597,697	1,595,966	1,731			
Economic development	101,281	99,501	1,780			
Recreation	390,002	381,391	8,611			
Human services	90,543	90,352	191			
Capital outlays	55,324	52,819	2,505			
Debt service:						
Principal retirement				460,000	445,000	15,000
Interest				738,206	747,928	(9,722)
Total expenditures and encumbrances	8,422,430	8,128,201	294,229	1,198,206	1,192,928	5,278
Excess (deficiency) of revenues over (under) expenditures and encumbrances	1,393,511	1,628,317	234,806	(741,400)	(657,231)	84,169
OTHER FINANCING USES:						
Operating transfer from (to) other fund	(1,393,511)	(1,393,511)	-	741,400	741,400	-
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses	-	234,806	234,806	-	84,169	84,169
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		158,407				
GAAP adjustments to revenues		39,792				
GAAP adjustments to expenditures		96,291				
Fund balances beginning, as restated		1,146,267			1,013,062	
Fund balances, ending		\$1,675,563			\$1,097,231	

(1) Budget include fund balances carried over from prior years.

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Coamo** (the Municipality) was established in 1579. 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* 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 COAMO**

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 COAMO**

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 COAMO**

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 COAMO**

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

H. Cash:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash 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. 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 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, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

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 COAMO**

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*, 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 COAMO**

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 judgments:

The estimated amount of the liability for claims and judgments, 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	\$ 20,852
Internal Revenue Service	30,119
General Services Administration	<u>5,181</u>
Total	<u>\$ 56,152</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

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:

Department of Labor (Unemployment)	\$ 168,047
General Services Administration	<u>53,354</u>
Total	<u>\$ 221,401</u>

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 8.58% for real property and 6.58% 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 1.75% 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

3. PROPERTY TAXES (CONTINUED):

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. During the current year the collections were in excess of actual advances by \$312,410 according to CRIM final liquidation. Such amount was included as intergovernmental receivable in the General Fund at 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%
Savings and loans associations	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 certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

5. INTERGOVERNMENTAL (CONTINUED):

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. 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. The Government Development Bank pays principal and interest on these obligations.

7. GENERAL FIXED ASSETS:

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

Description	Balance July 1, 2001	Additions and adjustments	Retirements and adjustments	Balance June 30, 2002
Land	\$ 2,741,279	\$ -	\$ 4,783	\$ 2,736,496
Buildings and Improvements	13,648,503	-	473	13,648,030
Equipment	<u>3,132,460</u>	<u>84,773</u>	<u>-</u>	<u>3,217,233</u>
Total	<u>\$ 19,522,242</u>	<u>\$ 84,773</u>	<u>\$ 5,256</u>	<u>\$ 19,601,759</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

8. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2001	\$ 2,745,000
Debt issued	2,825,000
Principal retirements	<u>(145,000)</u>
Balance at June 30, 2002	<u>\$ 5,425,000</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
1992 Series	7-1-06	\$ 790,000	3.26% - 6.36%	\$ 395,000
1995 Series	7-1-14	235,000	4.70% - 6.88%	200,000
1995 Series	7-1-14	1,430,000	6.11% - 7.71%	1,165,000
1997 Series	7-1-17	300,000	4.87% - 6.71%	270,000
1998 Series	7-1-13	205,000	4.87% - 6.31%	175,000
1999 Series	7-1-24	405,000	5.88% - 7.50%	395,000
2002 Series	7-1-27	810,000	6.00% - 7.25%	810,000
2001 Series	7-1-26	2,015,000	5.00% - 7.00%	<u>2,015,000</u>
Total general obligation bonds				<u>\$ 5,425,000</u>

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	\$ 180,000
2004	210,000
2005	225,000
2006	250,000
2007	275,000
Thereafter	<u>4,285,000</u>
Total	<u>\$ 5,425,000</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 COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. NOTES PAYABLE:

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

Balance at July 1, 2001	\$ 9,410,000
Debt issued	-
Payments during the current year	<u>(300,000)</u>
Balance at June 30, 2002	<u>\$ 9,110,000</u>

Notes payable at June 30, 2002 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1997 Series	7-1-02	\$ 190,000	4.87% - 6.69%	\$ 45,000
1999 Series	7-1-06	435,000	5.88% - 7.81%	330,000
Debt Refinance	7-1-21	10,000,000	6.00%	<u>8,735,000</u>
Total notes payable				<u><u>\$ 9,110,000</u></u>

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

Year ended June 30	Total
2003	\$ 325,000
2004	300,000
2005	320,000
2006	345,000
2007	370,000
Thereafter	<u>7,450,000</u>
Total	<u><u>\$ 9,110,000</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. 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 COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. 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 14, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN (CONTINUED):

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.

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 were approximately \$ 253,000. 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 employee's 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN (CONTINUED):

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. 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 Retirement System.

11. 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.

12. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. COMMITMENTS AND CONTINGENCIES (CONTINUED):

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's management estimates that the potential claims against the Municipality not covered by the insurance will not materially affect the financial condition of the Municipality

13. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

Description	General	Debt Service
Beginning Fund Balances (Deficit) at July 1, 2001.	\$ 1,077,950	\$ 937,339
Elimination of A/P to Department of Treasury	68,317	
Adjustment of Debt Service Fund fund balance related with CAE account final liquidation of prior fiscal years		160,820
Adjustment of Debt Service Fund fund balance related with CAE account final liquidations of prior fiscal years		(85,097)
Beginning Fund Balances (Deficit) at July 1, 2001, as restated	<u>\$ 1,146,267</u>	<u>\$ 1,013,062</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	CCC-131	<u>21,707</u>
Total U.S. Department of Agriculture			<u>21,707</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		251,139
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	94-FD-18 96-FD-18 97-FD-18 98-FD-18 99-FD-18 00-FD-18 01-FD-18	<u>657,788</u>
Total U.S. Department of Housing and Urban Development			<u>908,927</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office)			
Juvenile Justice and Delinquency Prevention	16.540	00-JP-FX-0072	14,323

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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 -- Department of Justice: Local Law and Enforcement Block Grants	16.592	2000-LB-BX-1085	<u>57,555</u>
Total U.S. Department of Justice			<u>71,878</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency Emergency Management Performance Grant	83.552	Not Available	8,142
Pass-through the Commonwealth of Puerto Rico - Office of the Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DR-PR 1136-DR-PR	<u>32,853</u>
Total U.S. Federal Emergency Management Agency			<u>40,995</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Service Block Grant	93.569	Not Available	50,392
Child Care and Development Block Grant	93.575	2001-121	<u>121,037</u>
Total U.S. Department of Health and Human Services			<u>171,429</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,214,936</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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 Coamo** 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 the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 1,214,936
Non federal programs expenditures	798,304
Total expenditures in the general purpose financial Statements	<u>\$ 2,013,240</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 Coamo
Coamo, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Coamo** as of and for the year ended June 30, 2002, and have issued our report thereon dated October 30, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, we did not obtain responses from one legal counsel regarding the corroboration of information furnished by management concerning litigation, claims and assessments and unasserted claims and assessments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Coamo'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 Coamo'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 Coamo's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **02-01** through **02-06**.

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 item 02-01 of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is 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 Coamo** in a separate letter dated October 30, 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
October 30, 2002

Stamp No. 1853993 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 Coamo
Coamo, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Coamo** 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 Coamo'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 Coamo's** management. Our responsibility is to express an opinion on the **Municipality of Coamo'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 Coamo'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 Coamo's** compliance with those requirements.

In our opinion, the **Municipality of Coamo** 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 instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-07** through **02-12**.

**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 Coamo** 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 Coamo'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 Coamo'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 **02-07** through **02-12**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 **02-07** through **02-10**, and **02-12** 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 Coamo** in a separate letter dated February 25, 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 25, 2003

Stamp No. 1853994 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported
Noncompliance material to financial statements noted?	Yes		No X

Federal awards

Internal Control over major programs:			
Material weakness identified?	Yes	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference 02-01

Requirement Fixed\ Capital Assets and Expenditures – Subsidiary Ledger

Statement of Condition During our examination of the 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.

Criteria The federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.

Cause of Condition There is no internal control procedures implemented to assure the completeness of the property records and reports.

Effect of Condition The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.

Recommendation 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

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
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference 02-02

Requirement	Financial Reporting - Accounting Records
Statement of Condition	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.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	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.
Effect of Condition	The Municipality's 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.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality's 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 COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-03
Requirement	Cash Receipts
Statement of Condition	There is no adequate segregation of duties in the cash receipts and cash reconciliation activities. A municipal employee (Official Collector) issues cash receipts, prepare daily cash reports, deposit funds collected and prepare bank reconciliation's.
Criteria	Article 6.005 (f) of State Act Number 81 of August 30, 1991 establishes that the Finance Director should maintain effective control and accountability over cash, real and personal property, and other assets.
Cause of Condition	As of audit date the Municipality does not have an additional employee to prepare the bank reconciliations.
Effect of Condition	The Municipality's cash has not been adequately safeguarded.
Recommendation	We recommend the Municipality Management to segregate the duties of cash collection and bank reconciliation.
Questioned Costs	None
Management Response	The Municipality's 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 COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-04**

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 forty-four (44) disbursement vouchers and we noted the following situations:

- a. Three (3) disbursement vouchers were not marked as paid. Also, seven (7) disbursement vouchers related to Community Development Block Grant Program were not marked as paid.
- b. Three (3) disbursement vouchers did not have the signature of the functionary who pre-audit it.
- c. In three (3) disbursement vouchers the invoices included as supporting evidence did not have the supplier or contractor signature.
- d. In two (2) disbursement vouchers the invoices included in as supporting evidence was copies instead of original invoices.
- e. In one (1) disbursement voucher we did not find evidence of the receiving report.
- f. In three (3) disbursement vouchers the purchase orders were dated after the receiving report and invoice.
- g. The Municipality did not prepare a certification that includes the name, title and signature of the person who performed the procurement process.

Criteria

The Revised Regulations on Basic Standard for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and to prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-04 (Continued)
Cause of Condition	The Municipality's internal control failed to assure that all transactions includes all the required signatures, documentation, or have been processed following all the procedures established by Law or Regulations.
Effect of Condition	The Municipality is not in compliance with Chapter four (4) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend that the Municipality should improve its internal control and procedures in order to assure that the disbursement vouchers contains all signatures required, all supporting documents and be cancelled as paid before the payment is made.
Questioned Costs	None
Management Response	The Municipality's 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 COAMO**

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**

Statement of Condition During our examination of the Municipality's procedures related to the formal procurement process we examined sixteen (16) bid files and other related documents and we noted the following situations:

- a. We did not find evidence about the bid bond required by the Municipality's Bid Board for six (6) bidders who participated in the formal bids.
- b. We did not find evidence regarding the mailing of adjudication or non-adjudication notification letters through certified mail for seventeen (17) bidders who participated in the formal bids.
- c. We did not find evidence in the bid files or contract files about the following bonding, insurance or tax requirements:
 1. Payment and Performance Bond - Two (2) cases
 2. Workmen Compensation Insurance - One (1) case
 3. General Liability Insurance - Three (3) cases
 4. Municipal Volume of Business License Tax - Two (2) cases
 5. Municipal Excise Construction Tax - Five (5) cases

Criteria Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board. Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-05 (Continued)
Cause of Condition	The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.
Effect of Condition	The Municipality is not in compliance with the Article 8.016 (c) of State Act Number 81 of August 30, 1991, and with Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend to the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
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
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-06
Requirement	Cash Receipts, Excise Taxes and Municipal License Taxes
Statement of Condition	<p>We performed a cash receipt test and examined a sample of sixty (60) collections. The following will summarize the exceptions found:</p> <ul style="list-style-type: none">a. In ten (10) cases we did not find evidence of construction permits or construction contracts used by the functionary in charge of cash collection necessary to determine the tax computation prior to process each cash collection. The functionary responsible for cash collection asserted us that his procedures do not include the retention of such documents.b. The audited financial statements of two (2) sales volume taxpayers were not available for examination.
Criteria	<p>Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. The Chapter nine (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statement in the case of volume of business taxpayers who's volume of business were in excess of one million dollars (\$1,000,000.00).</p>
Cause of Condition	<p>The Municipality's internal control procedures related to cash collection process did not include the retention of construction permits or construction contracts as evidence of cash collection. Also the internal control procedures failed to assure that volume sales taxpayer files are properly documented.</p>
Effect of Condition	<p>The Municipality does not have sufficient evidence to sustain the calculation of sales volume and excise taxes.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-06 (Continued)**

Recommendation We recommend to the Municipality,s Management to implement the following procedures in order to avoid these situations in a future:

- a. Assign an employee to prepare a file including construction permits, construction contracts and other necessary information to assure that excise tax computation for construction projects is duly documented in order to be examined by the auditors.
- b. Assign an employee to ascertain if the municipal license tax taxpayer files have all documents required by law.

Questioned Costs None

Management Response The Municipality's 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 COAMO**

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	Community Development Block Grant - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of Commissioner of Municipal Affairs
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of twenty-seven (27) housing rehabilitation participant files, we noted the following situations:</p> <ul style="list-style-type: none">a. In twenty-one (21) instances the housing rehabilitation contract did not specify the participant housing unit deficiencies to be corrected.b. Two (2) housing rehabilitation contracts were signed by participants only; not signed by a Municipality's representative.c. In two (2) instances the family income reported in the housing rehabilitation project application disagreed with family income evidence included in the participant file; family income evidenced was more than the family income reported in the application.d. In four (4) instances there was no evidence found in the file showing that the program staff inspected the rehabilitation work upon completion in order to assure that it was carried out in accordance with contract specifications.
Criteria	<p>24 CFR, Section 570.484 states that the Municipality must assure that the program funds benefit low- and moderate income families and retain documentation justifying its certifications. Also, the Office of Commissioner of Municipal Affairs ("OCAM") issued a procedures manual for housing rehabilitation activities.</p>
Cause of Condition	<p>The Municipality's internal control procedures failed to assure that rehabilitations are duly completed as required by regulations and that appropriate documentation is maintained.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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)
Effect of Condition	Municipality is not in compliance with 24 CFR, Section 570.484 and Office of Commissioner of Municipal Affairs ("OCAM") procedures.
Recommendation	We recommend the Municipality to establish the following procedures: <ul style="list-style-type: none">a. Ascertain that the participant housing unit deficiencies to be corrected are incorporated into the rehabilitation contract.b. Realize pre-rehabilitation inspection describing the participant housing unit deficiencies to be corrected.c. Assign a staff with knowledge in construction matters to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.d. Assure that all participant files include all required documentation such as eligibility determination, adequate evidence of family income and evidence of residence existence.e. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG - State's Program Annual Proposal.
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
MUNICIPALITY OF COAMO**

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	Community Development Block Grant -- State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State -- Office of Commissioner of Municipal Affairs
Requirement	Allowable Activities
Statement of Condition	<p>During our examination of twenty-three (23) housekeeping assistance project participant files, we identified the following conditions:</p> <ol style="list-style-type: none">a. In twenty-two (22) instances no evidence was found that the Project Coordinator visited the applicant housing unit to verify location of it prior to housekeeping assistance approval, as required by the Housekeeping Assistance Project Manual.b. In nine (9) instances no evidence was found that's supports the identity verification procedures over applicant family members listed in the application for services was done, as required by the Housekeeping Assistance Project Manual.c. In three (3) instances the participant file did not contain a current health certificate.d. In seven (7) instances no evidence was found that the notification of housekeeping assistance approval through a letter, as required by the Housekeeping Assistance Project Manual.e. In twenty-two (22) instances we no evidence that a written participant contract signed was between the applicant and a Municipality's representative establishing the services plan to be offered by the CDBG Program, as required by the Housekeeping Assistance Project Manual.f. In fourteen (14) instances we observed that the Service Coordinator visited the participants once instead of at least two times per month as required by the Housekeeping Assistance Project Manual. Also, in seven (7) instances no evidence was found about any visit to the participants.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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 (Continued) g. In five (5) instances no evidence was found about the Services Coordinator assessment to housekeeper performance through the participant housing unit visits, as required by the Housekeeping Assistance Project Manual.
Criteria	24 CFR, Section 570.484 states that the Municipality must assure that the program funds benefit low- and moderate income families and retain documentation justifying its certifications. Also, the Office of Commissioner of Municipal Affairs ("OCAM") issued a procedures manual for housekeeping services projects.
Cause of Condition	The Municipality did not follow all the procedures established through the procedures manual for housekeeping services projects issued by the Office of Commissioner of Municipal Affairs ("OCAM"), including the use of Forms designed for housekeeping services projects activities.
Effect of Condition	Municipality will be not in compliance with 24 CFR, Section 570.484 and the Office of Commissioner of Municipal Affairs ("OCAM") established procedures.
Recommendation	We recommend the Municipality to establish the following procedures: a. Maintain a participant file including all documents required by the procedures manual for housekeeping services projects issued by the Office of Commissioner of Municipal Affairs ("OCAM"). b. Complete an application form for each applicant prior to selection as Program participant. c. Determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

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 (Continued)**

- d. Notify approvals or denials of applications through letters.
- e. Sign written agreements establishing the service plan to be offered by the Program.
- f. Visit at least twice per month the participants housing unit to ensure quality of services.
- g. Assessment of housekeeper's performance.
- h. Assure that all participant files include all required documentations such as eligibility determination, adequate evidence of family income and evidence of residence existence.
- i. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG - State's Program Annual Proposal.

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
MUNICIPALITY OF COAMO**

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	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	We realized the Cash Management Test and found the following exceptions: <ul style="list-style-type: none">a) In five (5) instances the Municipality requested funds to the Pass-through Grantor and did not disburse them in a reasonable time.b) In nine (9) instances we could not match the funds requested and received from the Pass through Grantor with the disbursements posted in the accounting records.c) The program maintained a monthly average cash balance in books of \$26,978.
Criteria	24 CFR, Subpart I, Section 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and disbursements made by the Municipality.
Cause of Condition	The Municipality’s cash management internal controls procedures failed to assure that funds requested to the pass-through grantor were disbursed in accordance with Program regulation.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart I, Section 570.489 (c).
Recommendation	We recommend to the Municipality Management to maintain its cash management internal control procedures to assure compliance with the cash management requirement.
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
MUNICIPALITY OF COAMO**

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 Community Development Block Grant - State's Program (CFDA
No. 14.228); U.S. Department of Housing and Urban Development;
Pass through State - Office of Commissioner of Municipal Affairs**

Requirement Equipment and Real Property Management

Statement of Condition Section II - Financial Statements Findings - Finding Reference 02-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-11
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our contract provisions test we identified the following conditions: a. Four (4) contracts did not include provisions for granting access to GAO or other federally agencies, to books and other documents. b. Four (4) contracts did not include a provision for compliance with Energy Policy and Conservation Act. c. Four (4) contracts did not include provisions for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality did not perform proper monitoring procedures to detect the exclusion of certain contract clauses in the procurement procedures.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
Recommendation	We recommend management to provide training to employees who prepare contracts in order to assure that contracts to be executed includes all clauses required by the Federal, State and Local Regulations.
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
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-12
Program	Community Development Block Grant – State’s Program (CFDA, No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Reporting
Statement of Condition	During our examination of reporting we noted the following situations on the Financial Quarterly Report ended on June 30, 2002: a. The report did not identify the number of requisitions. b. Cash outlays per general ledgers pertaining to program years 1999, 2000 and 2001 disagree with cash outlays reported in the quarterly reports for the period ended June 30, 2002.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.
Effect of Condition	The Municipality did not report accurate financial results to Pass-through Grantor for the quarter ended June 30, 2002.
Recommendation	We recommend to the Municipality Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the Pass-through Grantor.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-12 (Continued)**

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
MUNICIPALITY OF COAMO**

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)
01-06	14.228	<u>Failures related to housing rehabilitation participant files</u> No corrective action has been taken. The Municipality will follow procedures and to use forms included in the manual for housing rehabilitation activities issued by the Office of Commissioner of Municipal Affairs (OCAM); also, the Municipality will implement a checklist containing all documents required to be filled in each housing rehabilitation activities participant files, and then examine all participant files using that checklist to identify missing documents to complete it promptly.
01-07	14.228	<u>Cash in excess of immediate needs</u> No corrective action has been taken. The Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program funds.
01-08	14.228	<u>The Municipality did not apply monitoring procedures to assure contractors compliance with Davis-Bacon Act.</u> No corrective action has been taken. The Municipality will assign an employee the responsibility of labor standards, including the responsibility to apply monitoring procedures to assure contractors compliance with Davis-Bacon Act. Such monitoring procedures will include: a pre-construction conference; provide documents related to labor standards to the adjudged contractor; request and examine the contractor's weekly payrolls; on-site visits to interview contractor employees and others.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO**

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)
01-09	14.228	<u>Inadequate Property Records and Reports</u> No corrective action has been taken. The Municipality is evaluating the impact of Governmental Accounting Standard Board Statement No. 34 for the fiscal year 2002-03 financial statements. Such Statement require significant changes in the financial reporting, and therefore will require a significant planning and resources commitment for the Municipality, including, but not limited to major changes in the accounting system: modification of chart of accounts, if necessary; development of worksheets to prepare fund financial statements; development of worksheets to prepare governmental-wide financial statements; actualization of fixed\capital assets subsidiary ledger in order to include in it all necessary information to comply with the GASB 34 requirements; others.
01-10	14.228	<u>Reporting failures</u> No corrective action has been taken. All reports prepared and filed with pass-through grantor (OCAM) will be reconciled with the accounting records prior to report submission, in order to ensure that financial amounts reported were supported by the accounting records.
01-11	83.544	<u>The files maintained by each Project Worksheet were not maintained as required by the GAR</u> No corrective action has been taken. The Municipality will follow requirements established by the Office of the Governor Authorized Representative (GAR) in the future, including the maintenance of a file for each Project Worksheet (PW); budget authorization, authorized scope of work, procurement process (if applicable), expenditures supporting documents, photos, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COAMO

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)
98-4	14.857 14.855	<u>Inspections of Section 8 Lease Units</u>

No corrective action has been taken. The Program personnel will comply with the Housing Quality Standards required by the Section 8 Housing Choice Voucher Regulations. For existing participants, an inspection will be conducted at least annually; for new participants or new housing units, an inspection will be conducted prior to contract execution.

OFICINA DE LA COMISIONADA DE ASUNTOS MUNICIPALES

DIVISION DE REGLAMENTACION E INTERVENCION

SEÑALAMIENTOS PENDIENTES DE SEGUIMIENTO

MUNICIPIO	SEÑALAMIENTO	AÑO
COAMO	Financial Statements	30-Jun-01
	Finding Reference 01-01	
	Fixed\Capital Assets and Expenditures	
	Finding Reference 01-02	
	Accounting Records	
	Finding Reference 01-03	
	Cash Receipts	
	Finding Reference 01-04	
	Expenditures for Goods and Services and Account Payables	
	Finding Reference 01-05	
	Cash Receipts, Excise Taxes and Municipal License Taxes	
	Finding Reference 01-06	
	Allowable Activities	
	Finding Reference 01-07	
	Cash management	
	Finding Reference 01-08	
	Davis Bacon Act	
	Finding Reference 01-09	
	Equipment and Real Property	
	Finding Reference 01-10	
	Financial Quarerly Report	
	Verificar Prior Findings	