

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CULEBRA

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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MUNICIPALITY OF CULEBRA
GENERAL PURPOSE COMBINED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS
JUNE 30, 2001
(WITH INDEPENDENT AUDITORS' REPORTS THEREON)

Carta No 2-6004

Municipality of Culebra, Puerto Rico
General Purpose Financial Statements and
Single Audit Reports

JUNE 30, 2001

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TORRES & HERNANDEZ, CPA, CSP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Municipal Assembly
Municipality of Culebra, Puerto Rico

We have audited the accompanying general-purpose financial statements of the Municipality of Culebra, Puerto Rico, as of June 30, 2001, and for the year then ended, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Municipality of Culebra's management. Our responsibility is to express an opinion on this general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Municipality of Culebra, Puerto Rico, has not prepared bank reconciliations of several bank accounts of state and federal awards during fiscal year ended June 30, 2001. Also, several bank statements of cash accounts from state and federal awards were not available on municipal files. In addition, transactions made during fiscal year ended June 30, 2001, related to cancellation and transfer of certificates of deposit to bank accounts were not recorded on municipal accounting records. We were, therefore, unable to apply generally accepted auditing procedures to an examination of the cash balances included in the general and special revenue fund in the Municipality's general purpose financial statements.

The Municipality of Culebra, Puerto Rico, has not maintained a complete and accurate record of all collections and revenues and amounts expended related to special funds, recorded in the special revenue fund, during fiscal year ended to June 30, 2001. We were, therefore, unable to apply generally accepted auditing procedures to an examination of the revenues and expenditures of the special funds included in the Municipality's general purpose financial statements.

Our Mission

Added Value Services, Provided by Leading Professionals, Obtaining a Reasonable Return on Investment

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In our opinion, except for the effects of such adjustments, if any, as might have determined to be necessary had we been able to audit the fixed assets of the general fixed assets account group, as explained in the third paragraph, the cash balances of the general and special revenue fund, as explained on the fourth paragraph, and the revenues and expenditures of the special funds included in the special revenue fund, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Culebra, Puerto Rico, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2001 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 8 to the general-purpose financial statements, the Municipality of Culebra is a defendant in a number of lawsuits. Preliminary hearings and discovery proceedings are in progress. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying general-purpose financial statements.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Municipality taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US 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. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Torres & Hernández CPA, LLP
Torres & Hernández, CPA, CSP
Certified Public Accountants

December 7, 2001

Stamp #1784734 of the
College of CPA's of
Puerto Rico is affixed
to the original.

MUNICIPALITY OF CULEBRA, PUERTO RICO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>			<u>ACCOUNTS GROUPS</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>General Long-Term Debt</u>	<u>General Fixed Assets</u>	
<u>ASSETS AND OTHER DEBITS</u>						
Cash, including Certificate of Deposit (Note 10)	\$ -	\$1,077,018	\$ -	\$ -	\$ -	\$ 1,077,018
Cash with Fiscal Agents (Notes 5 and 10)	-	77,133	108,088	-	-	185,221
Receivables (Note 13(A)):						
Federal Agencies (Note 4)	-	149,483	-	-	-	149,483
Due From Special Revenue Fund	12,401	-	-	-	-	12,401
Due From General Fund	-	191,234	-	-	-	191,234
Property, Plant and Equipment (Note 7)	-	-	-	-	14,274,534	14,274,534
Amount Available in Debt Service Fund for Payment of Obligation Note (Note 5)	-	-	-	108,088	-	108,088
Amount to be Provided for Payment of:						
Obligation Note (Notes 6 and 13(B))	-	-	-	1,912	-	1,912
Vested Compensated Absences (Note 1G)	-	-	-	350,904	-	350,904
Property Tax Debt (Notes 12 and 13(B))	-	-	-	50,110	-	50,110
Landfill Closure and Post-Closure Care Costs (Note 11)	-	-	-	1,036,316	-	1,036,316
TOTAL ASSETS AND OTHER DEBITS	\$ 12,401	\$ 1,494,868	\$ 108,088	\$ 1,547,330	\$ 14,274,534	\$ 17,437,221

See accompanying notes and auditors' reports, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF CULEBRA, PUERTO RICO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2001
 (CONTINUED)

	GOVERNMENTAL FUND TYPES			ACCOUNTS GROUPS		Totals Memorandum Only)
	General	Special Revenue	Debt Service	General Long-Term Debt	General Fixed Assets	
LIABILITIES AND FUND EQUITY / (DEFICIT)						
LIABILITIES						
Accounts Payable	\$ 103,204	\$ -	\$ -	\$ -	\$ -	\$ 103,204
Excess of Outstanding checks over Cash Balance	117,605					117,605
Accrued Liabilities	128,433	-	-	-	-	128,433
Due to:						
Other Governmental Units	21,428	-	-	-	-	21,428
Due to Special Revenue Fund	191,234					191,234
Due to General Fund		12,401				12,401
Deferred Revenues:						
Volume of Business Tax (Note 3)	59,331	-	-	-	-	59,331
Federal Awards (Note 1(C))	-	115,005	-	-	-	115,005
Funds from Long-Term Loans with GDB		72,638				72,638
Long-Term Debt:						
Obligation Notes (Notes 6 and 13(B))	-	-	-	110,000	-	110,000
Vested Compensated Absences (Note 1G)	-	-	-	350,904	-	350,904
Property Taxes (Notes 12 and 13(B))	-	-	-	50,110	-	50,110
Landfill Closure and Post-Closure Care Costs (Note 11)	-	-	-	1,036,316	-	1,036,316
TOTAL LIABILITIES	621,235	200,044	-	1,547,330	-	2,368,609
Contingencies (Note 8)	-	-	-	-	-	-
FUND EQUITY / (DEFICIT)						
Investment in Property, Plant and Equipment (Note 7)	-	-	-	-	14,274,534	14,274,534
Fund Balances / (Deficit):						
Reserved for Encumbrances (Note 1D)						
Unreserved:						
Designated for Debt Service	-	-	108,088	-	-	108,088
Designated for Subsequent Years Expenditures	-	1,294,824	-	-	-	1,294,824
Undesignated	(608,834)	-	-	-	-	(608,834)
TOTAL FUND EQUITY / (DEFICIT)	(608,834)	1,294,824	108,088	-	14,274,534	15,068,612
TOTAL LIABILITIES AND FUND EQUITY / DEFICIT	\$ 12,401	\$ 1,494,868	\$ 108,088	\$ 1,547,330	\$ 14,274,534	\$ 17,437,221

See accompanying notes and auditors' reports, which are an integral part of the general purpose financial statements.

MUNICIPALITY OF CULEBRA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>			Totals Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<u>REVENUES</u>				
Property Taxes (Notes 2 and 5)	\$ 157,611	\$ -	\$83,134	\$ 240,745
Volume of Business Taxes (Note 3)	96,707	-	-	96,707
Federal Awards (Note 4)	-	2,074,080	-	2,074,080
Intergovernmental (Note 4)	1,841,702	2,942,556	-	4,784,258
Fines and Forfeits	720	-	-	720
Rent	27,695	-	-	27,695
Charge for Services	6,600	-	-	6,600
Miscellaneous	61,960	-	-	61,960
TOTAL REVENUES	<u>2,192,995</u>	<u>5,016,636</u>	<u>83,134</u>	<u>7,292,765</u>
<u>EXPENDITURES</u>				
Current:				
Municipal Assembly	42,611	-	-	42,611
Mayor's Office	268,255	-	-	268,255
Finance	712,722	-	-	712,722
Public Works and Improvements	566,778	3,713,617	-	4,280,395
Sports and Recreation	75,104	-	-	75,104
Health and Human Services	481,664	209,631	-	691,295
Civil Defense	64,429	-	-	64,429
Municipal Guard and Public Safety	245,711	-	-	245,711
Urban Development	-	1,742,345	-	1,742,345
Sanitation	54,105	-	-	54,105
Tourism Office	18,834	-	-	18,834
Personnel Department	28,400	-	-	28,400
Auditing	22,269	-	-	22,269
Landfill Closure and Post-Closure Care (\$54,545, total amount determined for the year under GASB-18, less \$54,545 charge in GLTDAG liability (Note (11))	-	-	-	-
Public Safety	-	54,977	-	54,977
Debt Service (Note 5):				
Principal	-	-	30,000	30,000
Interests	-	-	12,075	12,075
TOTAL EXPENDITURES	<u>2,580,882</u>	<u>5,720,570</u>	<u>42,075</u>	<u>8,343,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (BALANCE CARRIED FORWARD)	<u>\$ (387,887)</u>	<u>\$ (703,934)</u>	<u>\$ 41,059</u>	<u>\$ (1,050,762)</u>

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001
 (CONT.)**

	<u>GOVERNMENTAL FUND TYPES</u>			Totals Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Excess (deficiency) of revenues and Other financing sources over (under) expenditures and other financing uses (Balance Brought Forward)	\$ <u>(387,887)</u>	\$ <u>(703,934)</u>	\$ <u>41,059</u>	\$ <u>(1,050,762)</u>
(Increase) Decrease in Reserve for Encumbrances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Unreserved Fund Balances	(387,887)	(703,934)	41,059	(1,050,762)
Fund Balances (Deficit) at Beginning of Year	<u>(220,947)</u>	<u>1,998,758</u>	<u>67,029</u>	<u>1,844,840</u>
Fund Balances (Deficit) at End of Year	\$ <u>(608,834)</u> =====	\$ <u>1,294,824</u> =====	\$ <u>108,088</u> =====	\$ <u>794,078</u> =====

See accompanying notes and auditors' reports, which are an integral part of the general purpose financial statements.

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

	GENERAL			DEBT SERVICE		
	Budget (As Amended)	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property Tax Advances	\$ 157,611	\$ 157,611	\$ -	\$ -	\$ -	\$ -
Ad-valorem Property Taxes	-	-	-	41,663	83,134	41,471
Volume of Business Taxes	71,430	96,707	(25,277)	-	-	-
Rent	33,438	27,695	(5,743)	-	-	-
Intergovernmental	1,817,220	1,841,702	24,482	-	-	-
Charges for Services	7,200	6,600	(600)	-	-	-
Fines and Forfeits	1,000	720	(280)	-	-	-
Miscellaneous	337,704	61,960	(275,744)	-	-	-
Total Revenues	<u>2,425,603</u>	<u>2,192,995</u>	<u>(232,608)</u>	<u>41,663</u>	<u>83,134</u>	<u>41,471</u>
EXPENDITURES AND ENCUMBRANCES						
Municipal Assembly	45,768	42,611	3,157	-	-	-
Mayor's Office	210,539	268,255	(57,716)	-	-	-
Finance	673,919	712,722	(38,803)	-	-	-
Public Works and Improvements	507,833	566,778	(58,945)	-	-	-
Health and Human Services	487,702	481,664	6,038	-	-	-
Sports and Recreation	76,020	75,104	916	-	-	-
Civil Defense	68,693	64,429	4,264	-	-	-
Municipal Guard	228,153	245,711	(17,558)	-	-	-
Sanitation	66,463	54,105	12,358	-	-	-
Tourism Office	16,350	18,834	(2,484)	-	-	-
Personnel Department	20,563	28,400	(7,837)	-	-	-
Auditing	23,600	22,269	1,331	-	-	-
Debt Service	-	-	-	41,663	42,075	(412)
Total Expenditures and Encumbrances	<u>2,425,603</u>	<u>2,580,882</u>	<u>(155,279)</u>	<u>41,663</u>	<u>42,075</u>	<u>(412)</u>
Excess (Deficiency) Of Revenues Over/ (Under) Expenditures And Encumbrances	\$ - =====	\$ (387,887)	\$ (387,887) =====	\$ - =====	\$ 41,059	\$41,059 =====

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 ENCUMBRANCES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE
 FUNDS (CONT.)
 FOR THE YEAR ENDED JUNE 30, 2001**

	<u>GENERAL</u>			<u>DEBT SERVICE</u>		
	<u>Budget (As Amended)</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Adjustments Required Under Generally Accepted Accounting Principles:						
Other GAAP Adjustments		\$ -			\$ -	
Fund Balance (Deficit) at Beginning of Year		<u>(220,947)</u>			<u>67,029</u>	
Fund Balance (Deficit) at End of Year		<u>\$(608,834)</u> =====			<u>\$ 108,088</u> =====	

See accompanying notes and auditors' reports, which are an integral part of the general-purpose financial statements.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the municipality conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

(A) FINANCIAL REPORTING ENTITY

The Municipality of Culebra was established in the year of 1880. The governmental system of the municipality is composed of the executive and legislative bodies. The mayor is the Chief Executive Officer and is elected every four years in the general elections of the Municipality of Culebra. The legislative body consists of 5 assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The municipality provides services such as: health, public works, sanitation, aids to low-income and elderly citizens, education, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. The major sources of funding of the municipality comes from federal awards from the federal government and from state funds received from central government.

The general purpose financial statements presents the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the Municipality of Culebra, Puerto Rico. This includes the organizational units governed by the Executive Officers and members of the Municipal Assembly of the Municipality of Culebra, Puerto Rico. The Municipality of Culebra, Puerto Rico, has no oversight responsibility or authority over any other governmental entity, since no other entities are considered to be controlled by or dependent on the Municipality. Control or dependency is determined using the following criteria:

- Selection of unit's governing board
- Management designation of the unit
- Significant influence
- Accountability for fiscal matters
- Scope of public service of the unit
- Any other relationship which, in substance, implies control or dependency.

MUNICIPALITY OF CULEBRA, PUERTO RICO

Notes to General Purpose Financial Statements June 30, 2001

(B) FUND ACCOUNTING

The accounts of the municipality are organized on the basis of funds or accounts groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for through a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Accordingly, interfund receivable and payables have not been eliminated. The various funds are summarized by type in the accompanying general purpose financial statements. The following fund types and account groups are used by the municipality:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the municipality are financed. The acquisition, use, and balances of the municipality's expendable financial resources and the related 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 Fund - The general fund is the general operating fund of the municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, principal, interests and related costs on long-term general obligation bonds.

ACCOUNTS GROUPS

Accounts groups are not funds and are used to establish accounting control and accountability for the municipality's general fixed assets and general long-term debt. The following are the municipality's account groups:

General Fixed Assets Account Group - The general fixed assets account group reflects the cost of fixed assets of a stewardship nature (land, buildings, improvements other than buildings, furniture and fixtures, equipment and motor vehicles acquired or constructed by the municipality). Public domain ("infrastructure") fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures in the general and special revenue funds and are not capitalized in the General Fixed Assets Accounts Group.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE 1 (B) FUND ACCOUNTING (CONTINUED):**

Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group. Property acquisitions are not classified as capital outlays in the general purpose financial statements.

General Long-Term Debt Account Group - This group of accounts is established to account for all long-term debt of the municipality.

(C) BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter, normally within the next two or three months, 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 year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule includes; (1) accumulated unpaid sick leave and other employee amounts which are not accrued (Note 1G).

Intergovernmental revenues and federal awards received from the federal government are recorded following the applicable legal and contractual requirements. Essentially, there are two types of revenues; (1) revenues recognized based upon the expenditures recorded. This occurs when moneys must be expended on the specific purpose of project before any amounts will be paid to municipality. Similarly, if cost sharing or matching requirements exist, revenue recognition depends upon compliance with these requirements; and (2) resources reflected as revenues at the time of receipt or earlier, if susceptible to accrual. This applies to moneys virtually unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE 1 (C) BASIS OF ACCOUNTING (CONTINUED):**

Property taxes are recognized as revenues when collected by the CRIM of the Municipality of Culebra, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

(D) ENCUMBRANCES

Encumbrance accounting is employed in the governmental fund types. Under the encumbrance system all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation. Under generally accepted accounting principles, encumbrances outstanding at year end are reported as reservations of fund balance and they do not constitute expenditures or liabilities since the commitments 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. As of June 30, 2000, no encumbrances were outstanding.

(E) BUDGETARY DATA

The municipality's annual budget represents departmental appropriations recommended by the Mayor and the means of financing them. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general purpose financial statements:

- (1) Prior to May 15 of each fiscal year, the mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary amendments to the budget, including budgetary transfers. Amendments made during the fiscal year are reflected in the budget information included in the general purpose financial statements.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE 1 (E) BUDGETARY DATA (CONTINUED):**

The accompanying combined financial statement of revenues, expenditures and encumbrances and changes in fund balances - budget and actual is presented on the budgetary basis to enhance comparability, since the budgetary basis followed by Municipality differs from generally accepted accounting principles (GAAP).

The principal differences between the budgetary basis and GAAP are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
- (2) Interfund transactions of the general and special revenue funds are not included in the budgetary basis.
- (3) Certain accrued liabilities and other debts are not included in the budgetary basis.
- (4) Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary basis.

All unencumbered appropriations in the operating budget lapse at the end of the fiscal year.

The special funds of the special revenue fund have not been included in the budget and actual comparison because balances are not budgeted. Also, the budget prepared for the Federal Award Programs is based on a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for such programs.

(F) INVENTORIES

The general and special revenue funds purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as an expenditure in the appropriate fund and the inventory is not recorded in the general purpose financial statements.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****(G) VESTED COMPENSATED ABSENCES**

Municipal employees are granted 30 days of vacations 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 employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed.

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, the municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resources is included in the general long-term debt account group. The estimated total cost of compensated absences that will require the use of current expendable resources is included as an accrued liability in the general fund.

(H) INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the municipality are covered under various surety bonds. 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. Corresponding premiums payable are withheld by the CRIM of Puerto Rico from property tax and subsidy sent to the municipality.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****(I) USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure be made of contingent assets and liabilities as of financial statement date and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

(J) TOTAL (MEMORANDUM ONLY) COLUMNS

Total columns on the general purpose combined financial statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, neither is such data comparable to a consolidation. Interfund elimination's have not been made in the aggregation of this data.

NOTE (2) - PROPERTY TAXES

The Collection Center of Municipal Revenues (CRIM) is responsible for the assessment of all real and personal property located within the Municipality of Culebra. Law number 81, approved on August 30, 1991, named Autonomous Municipalities of the Municipality of Culebra Act of 1991, authorizes the municipalities of Puerto Rico to levy a tax contribution over all properties within the territorial limits of the Municipality. Nevertheless, CRIM is responsible for the administration and collection of the corresponding tax contribution, during such fiscal year.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

Law Number 83, approved on August 30, 1991, named Municipal Property Tax law of 1991, Article 2.01, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a basic property tax contribution of up to 4% annually, over the assessed value of all real and non-exonerated property within the municipality, in addition to other contributions imposed based on laws in force. Also, law Number 83, in Article 2.02, authorizes the municipalities to impose during fiscal year 1992-93, and for each subsequent fiscal year, a special contribution of up to 1.03% annually, over the assessed value of all real, personal and non-exonerated property within the Municipality, to be applied to the amortization of general long-term obligations. This special contribution is also in addition to other contributions imposed based on laws in force.

MUNICIPALITY OF CULEBRA, PUERTO RICO

**Notes to General Purpose Financial Statements
June 30, 2001**

NOTE (2) - PROPERTY TAXES (CONTINUED)

Based on Articles 2.01 and 2.02 of law number 83, the Municipality of Culebra, Puerto Rico, through ordinance number 16, series 1992-93, approved by Mayor on March 23, 1993, imposed new property tax rates over the assessed value of all real and personal property within the Municipality. The new tax rates are detailed as follows:

	<u>Personal Property</u>	<u>Real Property</u>
Basic Contribution	4.00%	6.00%
Additional Special State Contribution	1.03	1.03
Additional Special Municipal Contribution	<u>1.25</u>	<u>1.25</u>
	6.28	8.28
Discount Granted by Central Government	<u>(.20)</u>	<u>(.20)</u>
Effective Tax Rates Applicable to Taxpayers	<u>6.08%</u> =====	<u>8.08%</u> =====

This new tax rates were made effective retroactively of January 1, 1993, over the assessed value of property as of such date, and for each subsequent fiscal year, and their collection began after July 1, 1993, by the CRIM.

The Municipality of Culebra grants a complete real property tax exoneration on the first \$15,000 of assessed valuation on residential units occupied by their owners. However, the municipality receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The CRIM, instead of the property taxpayer, becomes the source of payment in these cases.

For retailers with an annual net sales volume of less than \$100,000 a complete exemption from personal property taxes up to an assessment value of \$20,000 is granted by the municipality.

The CRIM sends to the Municipality of Culebra, on monthly payments, 100% of the estimate, made at beginning of fiscal year, of the contribution assessed over property to be collected for the municipality. Within ninety (90) days after fiscal year end, CRIM will prepare a final analysis of

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE (2) - PROPERTY TAXES (CONTINUED)**

funds distributed to the municipality, and the actual funds collected. If less funds were distributed, than the actual amount collected by CRIM, they, through the Government Development Bank of Puerto Rico (GDB), will send to the Municipality the remaining balance. If funds were distributed in excess of amounts that actually corresponds to the Municipality, CRIM informs to the GDB, in order to retain from future monthly payments, the amounts send in excess.

The Municipality of Culebra records as revenue in the general fund, the exonerated portion of property tax contribution when received from monthly notifications from CRIM.

NOTE (3) - VOLUME OF BUSINESS TAX

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

The tax rates are as follows:

- 1% for financial institutions
- 0.30% for all other organizations

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid before their maturity, the taxpayer is granted certain discounts.

Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the general fund.

During fiscal year 1992-93, tax rates increased through ordinance number 13, series 1992-93 approved on February 1993, as follows:

- For taxpayers engaged in financing businesses, sales tax to be paid is 1.25% of his business volume during fiscal year 1993-94, and 1.50% during fiscal year 1994-95 and beyond;
- For taxpayers engaged in Loan and Savings Associations, sales tax to be paid is 1.00% during fiscal year 1993-94 and 1994-95, 1.25% during fiscal year 1995-96 and 1996-97, and 1.50% during fiscal year 1997-98 and beyond; and
- For taxpayers engaged in any other type of business, sales tax to be paid is 0.40% of 1.00% of his business volume during fiscal year 1993-94, and of 0.50% of 1.00% during fiscal year 1994-95 and beyond.

This new tax rates were effective for fiscal year 1993-94. This increase in tax rates is permitted through sales tax Law #113, of 1974, as amended.

MUNICIPALITY OF CULEBRA, PUERTO RICO

**Notes to General Purpose Financial Statements
June 30, 2001**

NOTE (4) INTERGOVERNMENTAL REVENUES AND FEDERAL AWARDS

Intergovernmental revenues consist primarily of funds received from the Central Government of the Commonwealth of Puerto Rico, "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Power Authority and the Telephone Authority, and federal awards received from Federal Government.

Grants and subsidies received from the Municipality of Culebra and federal agencies include, among others, a general subsidy for urban development and capital improvements.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to urban development and capital improvements, which are accounted for through the special revenue fund.

NOTE (5) DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Collection Center of Municipal Revenues (CRIM) to the Municipality (See Note 2). These property taxes are accumulated by the CRIM in a redemption fund for payment of principal, interests and related costs of obligation notes.

NOTE (6) OBLIGATIONS NOTE

The principal long-term obligations of the Municipality are obligation notes issued to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund (See Note 5).

Obligation notes as of June 30, 2001 are composed of the following:

\$170,000, series 1998, payable in
annual installments ranging from
\$30,000 to \$40,000 through July 1,
2003; interests at 7.00 %.

\$ 110,000

\$ 110,000
=====

MUNICIPALITY OF CULEBRA, PUERTO RICO

**Notes to General Purpose Financial Statements
June 30, 2001**

NOTE (6) OBLIGATIONS NOTES (CONTINUED)

The annual requirements to amortize the long-term debt outstanding as of June 30, 2001, are as follows:

Years Ending <u>June 30,</u>	
2002	\$ 35,000
2003	35,000
2004	<u>40,000</u>
	\$110,000 =====

The following is a summary of changes in long-term obligation for the year ended June 30, 2001:

	Balance July 1, <u>2000</u>	New Issues & <u>Adjustments</u>	Retirements and Current <u>Maturities</u>	Balance June 30, <u>2001</u>
Obligation Notes	\$140,000 =====	\$ - - =====	\$30,000 =====	\$110,000 =====

NOTE (7) PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

	Balance July 1, <u>2000</u>	Additions and <u>Transfers</u>	Dispositions and <u>Retirements</u>	Balance June 30, <u>2001</u>
Buildings	\$10,821,100	\$ -	\$ -	\$10,821,100
Land	1,547,672	-	-	1,547,672
Vehicles and Equipment	1,817,370	-	-	1,817,370
Furniture and Fixtures	<u>88,392</u>	<u>- -</u>	<u>- -</u>	<u>88,392</u>
	\$14,274,534 =====	\$ - - =====	\$ - =====	\$14,274,534 =====

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE (7) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Balance included as land represents track of land acquired by the Municipality with federal funds from the Community Development Block Grant States' Program (CDBG) 1986 from the United States Administrator of General Services, for the distribution of land lots to low-income families and residents of the Municipality of Culebra.

The Municipality started the process of distributing the land lots to the low income families. Some land lots were distributed, but the process was stopped due to some legal cases arising from the distribution. During fiscal year June 30, 2000, the municipality did not distributed land lots.

NOTE (8) CONTINGENCIES**Federal Awards**

The Municipality participates in a number of federal award grant programs, including principally the Community Development Block Grants. Expenditures financed by grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the municipality may be required to reimburse the grantor agency. The municipality's compliance with applicable grant requirements will be established at some future date. .

Comptroller's Office Audit

The Municipality of Culebra, Puerto Rico, has been audited by the Comptroller's Office of the Commonwealth of Puerto Rico. The Comptroller's Office issued a final report related to the financial operations of the Municipality, dated January 27, 2000. The report covers municipal operations from January 14, 1997 through December 31, 1998. Such report includes findings regarding to certain alleged irregularities in the operations and administration of the Municipality of Culebra, Puerto Rico, during the stated period. The Comptroller's opinion in the reports stated that the operations of the Municipality were conducted substantially in accordance with laws and regulations, except for some findings and recommendations disclosed.

The Comptroller's Office of the Commonwealth of Puerto Rico is auditing the Municipality of Culebra, Puerto Rico, at the date of the report and the final effects, if any, of the outcome of such audit is not presently determinable.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE (8) CONTINGENCIES (CONTINUED)****Litigation**

The Municipality of Culebra is, at present, a defendant in a number of lawsuits. The legal counsel of the Municipality has advised that at this stage in the proceedings they cannot offer an opinion as to the probable outcome. However, it has been the municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

NOTE (9) RETIREMENT SYSTEM (PENSIONS)

The Municipality of Culebra and its employees have elected to be included in the retirement plan of the Retirement System Administration of the Government of Puerto Rico. Under the plan, the employee and employer portions are contributed, for which, the employee amount is withheld from salaries.

As of June 30, 2001, employer contribution consists of 9.275% of the salary of every employee participating in the plan. Payments to the plan from both portions contributed are made through the Treasury Department of Puerto Rico. As of June 30, 2001, the Municipality of Culebra has a debt outstanding to the Retirement System Administration of \$13,335, included as part of accrued liabilities.

The total pension expense from employer contribution for the fiscal year ended June 30, 2001, was approximately \$76,961. It is not practical to determine the balance of actuarial present value of vested and non-vested accumulated plan benefits, pension fund net assets, and other information of the municipality in the plan.

NOTE (10) CASH - CONCENTRATION OF CREDIT RISKS

The Municipality follows the practice of pooling cash of all funds, except for restricted funds held by the CRIM for repayment of principal and interests on long-term obligations, and federal awards.

The Municipality maintains its cash accounts in local commercial banks, whose accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of June 30, 2001 the balance per bank records do not exceeds the insured limits, except for one bank account, for which the balance per bank records exceeds the insured limits by \$769,892. Nevertheless, management believes that concentration of credit risks are limited because balances are deposit with high standing financial institutions. Also, the Municipality has two cash accounts with the Government Development Bank of Puerto (GDB) as a result of a long-term debt issued during fiscal year 1995-96 and 1998-99. This balance of \$77,133 in the special revenue fund, is restricted for expenditures designated on loan agreements with CDBG mainly for capital improvements. Cash with GDB is completely guaranteed by the Commonwealth of Puerto Rico.

MUNICIPALITY OF CULEBRA, PUERTO RICO**Notes to General Purpose Financial Statements
June 30, 2001****NOTE (10) CASH - CONCENTRATION OF CREDIT RISKS (CONTINUED)**

Also, deposits in excess of \$100,000 are collateralized by bank securities to properly safeguard such funds. Certificates of deposit of the special revenue fund earns interest at 4.45%, with maturity terms of thirty days, renewable at option of the Municipality. Interest earned on certificates of deposit are recognized as revenues of the corresponding fund.

See additional concentration of credit risks on Note 13.

NOTE (11) - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations require that the Municipality of Culebra, Puerto Rico, place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$1,036,316 as of June 30, 2001, which is based on approximately 59% usage (filled) of the landfill. It is estimated that an additional \$599,974 will be recognized as closure and post-closure care costs between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total current cost of the landfill closure and post-closure care (\$1,636,290) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2001. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE (13) - PROPERTY TAX DEBT

During fiscal year 1994-95, the Department of the Treasury determined that the Municipality of Culebra has a debt with the CRIM for funds distributed in excess of the property tax collected as of June 30, 1993. The debt is satisfied for a 15 years period and is withheld monthly, which is stated in the notifications sent by CRIM. Balance as of June 30, 2001 amounted to \$50,110.

NOTE (13) - CONCENTRATION OF CREDIT RISKS**(A) ACCOUNTS RECEIVABLE (NOTE 4)**

Concentration of credit risks related to receivables is limited because receivables arises from transactions with central and federal government, and based on prior experience, and award contract terms and provisions, this type of receivables are collected according to their terms.

MUNICIPALITY OF CULEBRA, PUERTO RICO

**Notes to General Purpose Financial Statements
June 30, 2001**

NOTE (13) - CONCENTRATION OF CREDIT RISKS (CONTINUED)**(B) LONG - TERM OBLIGATIONS (NOTE 6)**

Concentration of credit risks related to long-term debts is minimal, because balance is secured by the Government Development Bank of Puerto Rico, and is expected to be repaid from the property tax collections from future fiscal years.

**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number (Note 3)</u>	<u>Pass-through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Pass-Through Commonwealth of Puerto Rico-Commissioner's Office for Municipal Affairs (OCAM) :			
Community Development Block Grant States' Program (CDBG) 2000	14.228	86-00-2835	\$ 512,652
Community Development Block Grant States' Program (CDBG) 1999	14.228	86-00-2835	601,352
Community Development Block Grant States' Program (CDBG) 1998	14.228	86-00-2835	554,703
Community Development Block Grant States' Program (CDBG) 1997	14.228	86-00-2835	13,120
Community Development Block Grant States' Program (CDBG) 1996	14.228	86-00-2835	—
Total U.S. Department of Housing And Urban Development Pass-Through Programs (Balance Carried Forward)			\$ <u>1,681,827</u>

See accompanying notes to the Schedule of Federal Awards.

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 SCHEDULE OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001
 (CONT.)**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number (Note 3)</u>	<u>Pass-through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
(Balance Brought Forward)			<u>\$1,681,827</u>
<u>U.S. Department of Health and Human Services</u>			
Pass-Through Governor's Office for Elderly Affairs – Regional Elderly Office – Municipality of Bayamón:			
Special programs for Aing, Title III, Part B, Supportive Services	93.044	9F23G	19,028
Title III Part C- Nutrition Services	93.045	0K82B	4,181
Pass-Through Commonwealth of Puerto Rico – Governor's Office For Human Development:			
Community Service Block Grant	93.569	-	-
Child Care Program	93.575	-	<u>174,019</u>
Total U.S. Department of Health and Human Services Pass- Through Programs			<u>197,228</u>
(Balance Carried Forward)			<u>\$1,879,055</u>

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 SCHEDULE OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001
 (CONT.)**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number (Note 3)</u>	<u>Pass-through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
(Balance Brought Forward)			\$ <u>1,879,055</u>
 <u>Federal Emergency Management Agency</u>			
Pass-Through Office of Governor's Authorized Representative, Public Assistance Programs:			
Disaster Assistance Program 1068	83.544	P.A. No. 049-00000	-
Disaster Assistance Program 1247	83.544	049-00000	<u>67,127</u>
Total Federal Emergency Management Agency Pass- Through Programs			<u>67,127</u>
 <u>U.S. Department of Justice</u>			
Office of Community Oriented Policing Services			
Pass-Through Commonwealth of Puerto Rico, Office of the Governor of Puerto Rico Planning Board			
Public Safety Partnership and Community Policing Grants ("Cops Grants")-Universal Hiring Program	16.710	PR-(M)-96-47-1018-162-S	<u>54,977</u>
(Balance Carried Forward)			\$ <u>2,001,159</u>

See accompanying notes to the Schedule of Federal Awards.

**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(CONT.)**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number (Note 3)</u>	<u>Pass-through Grantor's Number</u>	<u>Disbursements/ Expenditures</u>
(Balance Brought Forward)			\$2,001,159
 <u>U.S. Department of Commerce</u>			
Direct Program:			
Special Economic Development and Adjustment Assistance Program-Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration (Note 4)	11.307	Spoc # PR(m)90-77-0629-554-F	_____ -
Total Department of Commerce Direct Program			_____ -
 <u>U.S. Department of Agriculture</u>			
Pass-Through Commonwealth of Puerto Rico, Department of Agriculture			
Rural Housing Preservation Grant	10.433	819-2-002-242-9	_____ 60,516
Total U.S Department of Agriculture Pass-Through Programs			_____ 60,516
Total Federal Awards Expended			\$2,061,675 =====

See accompanying notes to the Schedule of Federal Awards.

**MUNICIPALITY OF CULEBRA, PUERTO RICO
NOTES TO SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

(1) GENERAL

The accompanying schedule of expenditures of federal awards presents balances expended of all federal awards programs of the Municipality of Culebra, Puerto Rico. The reporting entity is defined in Note 1 (A) to the general purpose financial statements of the Municipality.

(2) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

A reconciliation of the expenditures reported in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - all governmental fund types to the Schedule of Federal Awards is as follows:

	Special Revenue <u>Fund</u> (A)	Special Funds from Municipal <u>Activities</u> (B)	Amounts Reported in the Schedule of Federal <u>Awards</u> (A) - (B)
Urban Development	\$1,742,345	\$ (60,518)	\$1,681,827
Public Works and Improvements	3,713,617	(3,585,974)	127,643
Health and Human Services	209,631	(12,403)	197,228
Public Safety	<u>54,977</u>	<u>-</u>	<u>54,977</u>
	<u>\$5,720,570</u> =====	<u>\$ (908,495)</u> =====	<u>\$2,061,675</u> =====

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**(4) SPECIAL ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE PROGRAM
(EDA)**

The Municipality has cash available related to this award of \$5,563. As of financial statement date, there is no final determination as to how funds will be used.



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 Mayor and Municipal Assembly
Municipality of Culebra, Puerto Rico

We have audited the general purpose of The Municipality of Culebra (The Municipality) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001. 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'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 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 instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings and questioned costs as findings from #01 to #01-24.

We have also noted other matters involving compliance that we have reported to the management of the Municipality in the schedule of prior audits' findings and questioned costs accompanying this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings from #01 to #01-24, and in the accompanying schedule of prior audits' findings and questioned costs.

Our Mission

Added Value Services, Provided by Leading Professionals, Obtaining a Reasonable Return on Investment

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Tel. (787) 752-4545 Fax (787) 752-4644

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that the misstatement 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 reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered findings #01-1, 01-8, 01-09, 01-11, 01-12, 01-13, 01-14 and 01-19 to be material weaknesses.

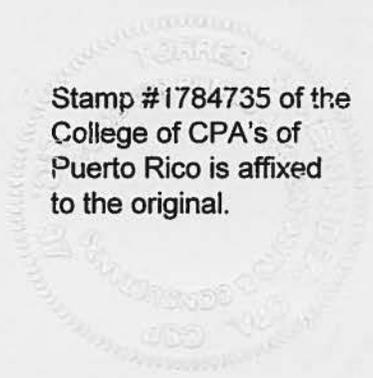
We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Municipality, in the schedule of prior audits' findings and questioned costs accompanying this report.

This report is intended solely for the information and use of the Municipal Assembly, Management, Federal Awarding Agencies and Pass-Through Entities, and is not intended to be and should not be used by anyone other than these specified parties.

Louis Hernández CPA, CF
Torres & Hernández, CPA, QSP
Certified Public Accountants

December 7, 2001

Stamp #1784735 of the
College of CPA's of
Puerto Rico is affixed
to the original.





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

To The Mayor and Municipal Assembly
Municipality of Culebra, Puerto Rico

Compliance

We have audited the compliance of The Municipality of Culebra (The Municipality) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2001. The Municipality's major federal programs are identified in the summary of auditor's 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's management. Our responsibility is to express an opinion on the Municipality'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 Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

As described in findings #01-1, 01-3, 01-4, 01-7, 01-9, 01-10, 01-11, 01-12, 01-14, 01-20, 01-21, 01-22, 01-23 and 01-24 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding allowable costs/costs principles, cash management, Davis-Bacon Act, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to the Community Development Block Grant State's Program (SBGP) Award. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to that program.

Also, as described on findings #01-1, 01-6, 01-9, 01-10, 01-11, 01-12, 01-22, and 01-23 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the requirements regarding allowable costs/costs principles, cash management, equipment and real property management, and that are applicable to the major award Child Care. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to that program.

Our Mission

Added Value Services, Provided by Leading Professionals, Obtaining a Reasonable Return on Investment

PO Box 4846, Carolina, PR 00984-4846

Tel. (787) 752-4545 Fax (787) 752-4644

Report on Compliance (Continued)

In our opinion, because of the effects of the noncompliance described in the third paragraph, the Municipality did not comply in all material respects, with the requirements referred to above that are applicable to the Community Development Block Grant State's Program (SBGP) Award. Also, in our opinion, except for the instances of noncompliance described in the fourth paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to the major federal award Child Care, for the year ended June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding #01-5.

Internal Control Over Compliance

The management of The Municipality 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'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'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 findings #01-1, 01-3, 01-4, 01-5, 01-6, 01-7, 01-9, 01-10, 01-11, 01-12, 01-14, 01-20, 01-21, 01-22, 01-23 and 01-24.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered findings #01-1, 01-6, 01-9, 01-10, 01-11, 01-14, 01-20, 01-21, 01-22, 01-23 and 01-24 to be material weaknesses.

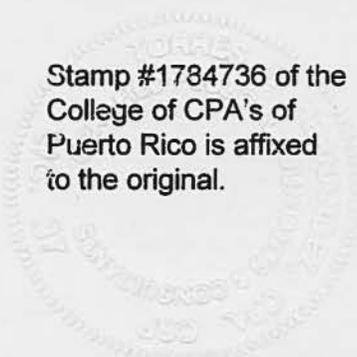
Internal Control Over Compliance (Continued)

This report is intended solely for the information and use of the Municipal Assembly, Management, Federal Awarding Agencies and Pass-Through Entities, and is not intended to be and should not be used by anyone other than these specified parties.

José Hernández CPA, CSP
Torres & Hernández, CPA, CSP
Certified Public Accountants

December 7, 2001

Stamp #1784736 of the
College of CPA's of
Puerto Rico is affixed
to the original.



MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Part I - Summary of Auditor's Results:

Financial Statements

1. The independent auditor's report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were noted during the audit an identified.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.

Federal Awards

4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards were identified and disclosed in this report. Some of the reportable conditions are considered material weaknesses.
5. The independent auditor's report on compliance with requirements applicable to major federal award program expressed an adverse opinion for the Community Development Block Grant State's Program (CDBG) and a qualified opinion for the Child Care Award.
6. The audit disclosed findings that are required to be reported under OMB Circular A-133, section 510(a).
7. The Municipality's major awards during this fiscal year were:
 - Community Development Block Grant States' Program (SBGP)(CFDA #14.228)
 - Child Care Award (CFDA #93.575)
8. A threshold of \$300,000 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, section 520(a).
9. The Municipality does not qualify as a low risk auditee, as that term is defined in OMB Circular A-133, section 530.

Part II - Findings Related to the Financial Statements:

The audit disclosed the following findings related to the financial statements:

Note: Findings #01-1, 01-3, 01-4, 01-5, 01-6, 01-7, 01-9, 01-10, 01-11, 01-12, and 01-14 relates also to federal awards of the municipality.

- **FINANCIAL MANAGEMENT SYSTEM - PROPERTY RECORDS APPLICABLE TO MUNICIPALITY AND ALL FEDERAL AWARDS (FINDING #01-1)**

CONDITION: According to Code of Federal Regulations (CFR), Title 24, Housing and Urban Development, Part 85, Subpart C, Section 85.32, (d)(1); (2):

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property, and,
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

As indicated on auditors' reports of prior fiscal years, the Municipality do not have available complete property records, based on a physical inventory counts. At present, records are maintained by the property office, by dependency, with a description of the property items, amount of items, property number assigned, cost, the property items acquired during the year, items retired from property records, and final balance. The records do not provide information as to acquisition dates, disbursement order number, property transfer, and if property was acquired with state or federal funds. In addition, property records lack information on Municipal building and facilities, land lots acquired, and the amount of construction in progress for the buildings and facilities in construction stages is not accurately maintained as of June 30, 2001. Therefore, there is no reasonable assurance that property records includes all property physically in existence and owned by the Municipality, and excludes all property not in existence or damaged, as of June 30, 2001. In addition, the Municipality records property acquisitions according to budget categories in the combined statement of revenues, expenditures and changes in fund balance. Therefore, property acquisitions are not classified as capital outlays on such statement.

CRITERIA: As an appropriate internal control procedure, and to comply with CFR 24, Title 85, Subpart C, Section 85.32, which states that a complete set of records should be maintained in order to assure all balances are correct and properly recorded.

CAUSE OF CONDITION: There is no uniform control procedure requiring a standard and complete set of property records, as required by Common Rule.

EFFECT OF CONDITION: Accurate, and complete financial information of property is not available, unless obtained or re-compute using alternate methods.

RECOMMENDATION: The Municipality should perform a complete physical inventory for each municipal dependency, and reconcile it with the present accounting records and adjust any differences found. Also, to implement a procedure that includes the recording of every property purchased in the property records before use it.

QUESTIONED COSTS: None.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **EMPLOYEES FILES INCOMPLETE (FINDING #01-2)**

CONDITION: For ten (10) employee files out of a sample of five (15) examined, which represents 66%, the files examined do not have all the required information on files, including service records, personal history, designation of beneficiaries, medical examinations, good conduct certifications, social security card copies, employee evaluations, and others. For one file examined, employee did not sign form I-9. For one file examined of a municipal guard, the file do not contain copy of license to carry firearms, field investigation reports, and others.

CRITERIA: As stated in the Chapter XI, Article 11.023 of Law #81, the municipality should maintain complete employee files, with specific documents required, and it should be updated periodically.

CAUSE OF CONDITION: The internal control procedures to assure that employee files are completed and updated, was not effective enough during this fiscal year.

EFFECT OF CONDITION: In case of investigation by the Treasury Department or a Federal Agency, information is missing on employee files and penalties could be imposed or questioned costs, representing unnecessary expenditure of funds.

RECOMMENDATION: To strengthen present control procedures to assure employee files contains all the necessary information, as required by state and federal agencies, and to assure that it will be updated constantly.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **CONTRACTS PREPARED WITHOUT THE REQUIRED CLAUSES AND INFORMATION (FINDING #01-3) APPLICABLE TO MUNICIPALITY AND COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD CONTRACTS (CFDA # 14.228)**

CONDITION: For fifteen (15) contracts examined, the following clauses were not included, to comply with present laws and regulations and to safeguard municipal interests:

Clauses not Included	Number of Cases
1. Date contract was awarded	1
2. Maximum amount of Contracted Services, including hours	2
3. Obligation from contracted party to submit periodic reports of work Performed	5
4. Contracted party will not enter in contractual relationships or acts that represents a conflict of interest with municipality	12

5. No public employee of the contracted party has a direct or indirect economic interest in the contract or any interest that affect the contract	7
6. For professional services, the required 7% retention (or the one applicable) will be made, unless a release is obtained from Treasury Department	1
7. The contracted party is not required to pay alimony, and if it is required, he has no balance due or has a payment plan	9
8. That municipality can cancel the contract through a written notification within 30 days of contract signature	7
9. That municipality can cancel the contract immediately in case of negligence, abandonment of duty or noncompliance from contracted party	4
10. For professional services, clause that indicates that contracted party will include in its invoices the amount of hours left to complete services, based on total amount of hours included in contract	6
11. For individuals contracted, clause that indicates that the individual do not receive compensation for the services rendered from another public entity, except as authorized by law	3
12. Clause that a certification from Treasury Department was obtained stating that no tax debt is outstanding (or is under a payment plan)	7
13. Clause that a certification from Treasury Department was obtained stating that contracted party has submitted its tax returns in the last five (5) years	7
14. Clause that a certification from the Center for Municipal Collections (CRIM) was obtained stating no debt is outstanding for property taxes (or is under a payment plan)	9
15. Clause that a certification from the Department of Labor and Human Resources was obtained stating that no debt is outstanding for Unemployment, disability and social security	9
16. Budgetary account from which contract will be paid	4
17. Social security number of the contracted party	1

Also, for a construction contract awarded in excess of \$100,000, no certification was available from contracted party that the entity and its principals were not suspended or debarred. Executive Orders 12549 and 12689, Debarment and Suspension, require this.

In addition, for three (3) contracts tested, the contract number was not included in the contract document.

CRITERIA: The following applicable laws and regulations require these clauses:

- a. Circular letter # 98-01 of July 18, 1997, from the Comptroller's Office of Puerto Rico,
- b. Comptroller's Office of Puerto Rico Guide for Contracting, March 1998,
- c. Chapter X, Municipal Autonomous Law # 81, of August 30, 1991, as amended,
- d. Governmental Ethics Office Circular Letter # 95-05, of July 31, 1995,

- e. Section 1143 Internal Revenue Code of Puerto Rico of 1994, as amended,
- f. Asume Law # 5, of December 30, 1996,
- g. Circular Letters # 1300-13-97, # 1300-20-97, # 1300-23-97 from Treasury Department of Puerto Rico, and
- h. Executive Orders 12549 and 12689, Debarment and Suspension.

CAUSE OF CONDITION: The internal control procedures to assure that contracts include all clauses required by laws and regulations were not effective enough during this fiscal year. Contracts were not properly verified by preintervention department to assure this information was contained in contracts before signature.

EFFECT OF CONDITION: Municipal interests are not properly safeguarded. Also, contracts could be awarded to individuals or entities liable to Central Government for income, unemployment, disability and property taxes.

RECOMMENDATION: To strengthen present control procedures to assure all contracts prepared contains all the necessary clauses and information, as required by present laws and regulations, and by state and federal agencies. One employee (preintervention department) should be designated to verify contracts before signature to ensure are complete in terms of required clauses.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

• **CONTRACTS PREPARED CONTAINS INCOMPATIBLE INFORMATION (FINDING #01-4) APPLICABLE TO MUNICIPALITY AND COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD CONTRACTS (CFDA #14.228)**

CONDITION: For one (1) contract examined of a sample of fifteen (15), the amount to be paid to contractor, as detailed in numbers, differs from amount written in one of it's paragraphs. The amount detailed in numbers is \$405,651, and the amount written is \$493,709, for a difference of \$88,058. This contract comes from a bid awarded in May 2000, for repairs, repavement, cleaning, filling and other work related to damages caused by hurricane Lenny. The difference of \$88,058 is included in another contract and represents an amount awarded to other contractor to perform work related to this bid, not awarded to the original contractor.

For another contract, terms detailed in "contract rider document" are not the same as invoiced by contracted party. Amount invoiced by contracted party was \$1,200 for musical services. "Contract rider document" included with this invoice contains terms related to services done by contracted party in another municipality for a different amount and date. Apparently, this document was not verified against invoice, and "contract rider document," related to the \$1,200 invoiced were not requested by municipality to contracted party.

CRITERIA: Contracts should be verified to assure details of costs in numbers agree with written amounts included in contract paragraphs, to avoid inconsistencies.

CAUSE OF CONDITION: The internal control procedures to assure that contracts are properly verified before signature was not effective enough during this fiscal year. Contracts were not properly verified by preintervention department to assure information contained in contracts was correct and in agreement before signature and final payment.

EFFECT OF CONDITION: Municipal interests are not properly safeguarded. Also, since amount to be paid to the contractor differs, payments could be made in excess of amount contracted.

RECOMMENDATION: To strengthen present control procedures to assure all information included in contracts is in agreement, before signature. One employee (preintervention department) should be designated to verify contracts before signature to ensure this.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **CONTRACTS NOT SEND TO THE COMPTROLLER'S OFFICE WITHIN REQUIRED TIME LIMITS (FINDING #01-5) APPLICABLE TO MUNICIPAL AND CHILD CARE AWARD CONTRACTS (CFDA #93.575)**

CONDITION: Six (6) contracts of a sample of fifteen (15) examined were not submitted to the Comptroller's Office, as required by Ruling #33, based on Law number #18, as amended.

CRITERIA: As an appropriate internal control procedure, and to comply with Ruling #33 from Comptroller's Office, Based on Law #18, Article 6a.

CAUSE OF CONDITION: The Municipality's internal control procedure to assure that all contracts were send to the Comptroller's Office within the period of time required, was not effective enough during this fiscal year. Same condition was reported in previous fiscal year.

EFFECT OF CONDITION: The Municipality is not in compliance with the Ruling #33 from Comptroller's Office.

RECOMMENDATION: To implement control procedures in order to send contracts to the Comptroller's Office within fifteen (15) labor days after signed by parties, as required by law.

QUESTIONED COSTS: None.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **QUOTATIONS NOT AVAILABLE FOR PURCHASES MADE (FINDING #01-6) APPLICABLE TO MUNICIPALITY AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: Eight (8) disbursements made for purchases under \$10,000, from a sample of twenty-five (25) disbursements tested, did not have written quotations as evidence of price solicitation to suppliers. For the eight (8) disbursements, twelve (12) purchase orders were prepared.

Also, for forty (40) federal award disbursements tested, four (4) disbursements did not have written quotations as evidence of price solicitation to suppliers. This represents ten (10) percent of sample tested. In addition, for two (2) of them, the quotations available were incomplete and without date.

CRITERIA: As an appropriate internal control procedure, quotations should be requested as evidence of protecting municipal interests and price solicitation. Also, to comply with Chapter VIII, Article 8.005 of Law #81, as Amended, of August 30, 1991, which states that municipal officials are responsible for the legality, correctness, completeness and propriety of all disbursements authorized for payment.

Also, Title 24 – Housing and Urban Development, Volume 1 of the Code of Federal Regulations, Part 85, “Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)”, Subpart C –“Changes, Property, and Subawards”, Section 20 (b)(6) requires that federal award disbursement be supported by appropriate documentation, including written quotations.

CAUSE OF CONDITION: The Municipality’s internal control procedure to assure that all disbursements prepared have the quotations required by law and regulations, was not effective enough during this fiscal year.

EFFECT OF CONDITION: The Municipality is not in compliance with Chapter VIII, Article 8.005 of Law # 81 and 24 CFR 85.20(b)(6), and could be making disbursements without the required supporting evidence.

RECOMMENDATION: To strengthen control procedures to assure all disbursements are reviewed in terms of supporting evidence and filed with all required supporting documents, including the written quotations. If quotations are solicited and not received, or if only one supplier is available, we recommend documenting request in a memorandum and attach it together with other supporting documents.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS WERE NOT STAMPED AS CANCELLED PAID (FINDING #01-7) APPLICABLE TO MUNICIPALITY AND TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: For twenty-five (25) municipal disbursements tested, nine (9) disbursements were not cancelled as paid. This represents thirty-six (36) percent of sample tested.

Also, for forty (40) federal award disbursements tested, nineteen (19) disbursements were not cancelled as paid. This represents forty-seven (47) percent of sample tested.

CRITERIA: Sound Government management requires that supporting documents of disbursement transactions be identified as paid, to avoid duplication of payment in the future. Also, to comply with Chapter IV, Section 6 of the Regulation on Basic Standards for the Municipalities of Puerto Rico, 1995, as amended.

Also, OMB Circular A-87, " Costs Principles for State, Local, and Indian Tribal Governments", states general requirements for the allowability of costs charged to a federal award. As stated in that circular, disbursements should be identified as "cancelled paid", to eliminate the possibility of duplicating disbursements.

CAUSE OF CONDITION: The Municipality's internal control procedure to assure that all disbursements prepared were identified as paid, was not effective enough during this fiscal year.

EFFECT OF CONDITION: If invoices and other supporting documents of the disbursements are not identified as paid, payment of invoices already paid could be made.

RECOMMENDATION: The municipality should strengthen control procedures to ascertain that all disbursement vouchers and its supporting documents are properly identified as "canceled paid", to avoid the possibility of paying twice.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **DOCUMENTATION OF REVIEW OF FUNDS AVAILABLE IN BUDGETARY ACCOUNT ON PURCHASE ORDER (FINDING #01-08)**

CONDITION: For twenty-five (25) disbursements tested, twenty-two (22) disbursements do not include in their respective purchase orders prepared the evaluation of the amount available in budgetary account before amount is committed. This represents eighty-eight (88) percent of sample tested.

CRITERIA: Sound government management requires that when a purchase order is prepared, the budgetary account to which the purchase will be charged be verified in the book of orders and contracts, to assure balance is available. If balance is not available, a budgetary transfer should

be considered. This is required by Chapter IV, Section 6 of the Regulation on Basic Standards for the Municipalities of Puerto Rico, 1995, as amended.

CAUSE OF CONDITION: The Municipality's internal control procedure to assure that all purchase orders prepared were verified in terms of balance available in budgetary account was not effective enough during this fiscal year.

EFFECT OF CONDITION: Budgetary accounts could be over expended, and could create negative variances when comparing budget amounts with actual disbursements.

RECOMMENDATION: The municipality should strengthen control procedures to ascertain that all purchase orders are properly verified in terms of amount available in budgetary accounts before a purchase is committed. Purchase order document provides a section to document this verification.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **SUPPORTING EVIDENCE OF DISBURSEMENTS NOT AVAILABLE (FINDING #01-09) APPLICABLE TO MUNICIPALITY AND TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: For twenty-five (25) disbursements examined, the following supporting documents of the disbursements were not available:

<u>Conditions</u>	<u>Number of Cases</u>
1. Cancelled checks	1
2. Purchase and disbursement orders, invoices, conduces, written quotations, and others	1
3. Purchase Order	2
4. Receiving report (conduce)	3

In addition:

Of forty-nine (49) disbursements examined of accounts payable, for three (3) of them the supporting documentation like purchase and disbursement orders, invoices, conduces, written quotations, and others were not available. Also, for this sample of forty-nine (49) disbursements examined of accounts payable, for one (1) of them the invoice supporting the disbursements was not dated and its contract was not numbered.

Of fifteen (15) disbursements examined related to payroll, for ten (10) of them the cancelled checks were not available.

Also, for forty (40) federal award disbursements tested, the following supporting documents of the disbursements were not available:

<u>Conditions</u>	<u>Number of Cases</u>	<u>Questioned Costs</u>
1. Cancelled Checks	2	\$ -
2. Purchase and disbursement orders, invoices, conduces, written quotations, and others (SBGP Award)	9	812,506
3. Purchase and disbursement orders, invoices, conduces, written quotations, and others (Child Care Award)	5	11,556
4. Conduce (receiving reports) or inspection of physical condition and receipt of goods (Child Care Award)	8	-

CRITERIA: Sound management requires that disbursements be properly supported. Law # 81 named Autonomous Municipal Law of August 30, 1991, as amended on Chapter VIII, Article 8.005, requires this.

Also, OMB Circular A-87, "Costs Principles for State, Local, and Indian Tribal Governments", states general requirements for the allowability of costs charged to a federal program. As stated in that circular, proper documentation of disbursements is necessary to support its allowability and accounting distribution.

CAUSE OF CONDITION: Control procedures to assure that disbursements are properly supported were not effective enough during this fiscal year.

EFFECT OF CONDITION: There is no evidence that the Municipality verified and monitored disbursements to assure they are in compliance with laws and regulations, and specifically, if they are allowable and reasonable. Also inadequate documentation could lead to unauthorized payments and approvals, and disbursement items could be paid twice.

RECOMMENDATION: The Municipality should strengthen verification and monitoring procedures related to disbursement, to assure they are properly filed, including it's supporting documents.

QUESTIONED COSTS: \$824,062.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS NOT IDENTIFIED AS PREINTERVENTED (FINDING #01-10) APPLICABLE TO MUNICIPALITY AND TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: For twenty-five (25) disbursements examined, ten (10) of them were not stamped as preintervented, and there is no signature of the preintervention officer nor any documentation of the preintervention process to this documents. This represents forty (40) percent of the sample tested.

Also, for forty (40) federal award disbursements tested, sixteen (16) disbursements were not stamped as preintervented. This represents forty (40) percent of sample tested.

CRITERIA: Sound management requires that disbursements be verified, first when purchase order is prepared, and later before disbursement is made, to assure it complies with applicable state and federal laws and regulations. This is required by Regulation on Basic Standards of the Municipalities of Puerto Rico, 1995, as amended, Chapter IV, Sections 6 and 7.

CAUSE OF CONDITION: Control procedures to assure that disbursements are properly verified by a municipal official to assure compliance with applicable laws and regulations was not effective enough during this fiscal year.

EFFECT OF CONDITION: Purchases and disbursements could be made not in compliance with applicable laws and regulations, and not be detected in a timely manner. This could lead to findings and questioned costs by State and Federal Awarding Agencies, which could be avoided if the preintervention process is properly performed.

RECOMMENDATION: The Municipality should strengthen verification and monitoring procedures related to disbursements, to assure they are properly verified and preintervented, including it's supporting documents.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

• **SUPPORTING DOCUMENTS OF DISBURSEMENT TRANSACTIONS NOT SIGNED BY MUNICIPAL OFFICIALS (FINDING #01-11) APPLICABLE TO MUNICIPALITY AND TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: For twenty-five (25) disbursements examined, the following supporting documents were not signed by municipal officials as evidence of verification and approval:

<u>Conditions</u>	Number of Cases
1. Disbursement orders not signed by In-Charge of Dependency	8
2. Purchase Order not signed by any municipal official	2

Also, for forty (40) federal award disbursements tested, the following supporting documents the following supporting documents were not signed by municipal officials as evidence of verification and approval:

<u>Conditions</u>	Number of Cases	Questioned Costs
1. Purchase and Disbursement Order not signed by any municipal official (SBGP Award)	1	\$ 214,470

2. Disbursement Order not signed by the official payer (Child Care Award)	1	-
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CRITERIA: Sound management requires that supporting documents of disbursement transactions be properly signed, as evidence of verification and approval. This is required by Law # 81 named Autonomous Municipal Law of August 30, 1991, as amended on Chapter VIII, Article 8.005.

Also, OMB Circular A-87, "Costs Principles for State, Local, and Indian Tribal Governments", states general requirements for the allowability of costs charged to a federal program. As stated in that circular, proper documentation of disbursements is necessary to support its allowability and accounting distribution.

CAUSE OF CONDITION: Control procedures to assure that supporting documents of disbursements were properly signed by municipal officials before filing were not effective enough during this fiscal year. The preintervention department is not reviewing carefully all purchase orders and disbursements made to detect and avoid this condition.

EFFECT OF CONDITION: There is no evidence that municipal officials approve this purchase orders and their related disbursements.

RECOMMENDATION: The Municipality should strengthen verification and monitoring procedures related to disbursements, to assure purchase and disbursement orders and supporting documents of disbursements were properly signed by municipal officials before filing.

QUESTIONED COSTS: \$214,470.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **PURCHASE ORDERS PREPARED (FINDING #01-12) APPLICABLE TO MUNICIPALITY AND TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: For twenty-five (25) disbursements examined, the following conditions were noted related to purchase orders prepared:

<u>Conditions</u>	Number of Cases
1. Purchase order without date	1
2. Amount invoiced is not in agreement with amount in purchase order	1
3. Purchase orders not recorded in book of orders and contracts	7

Also, for forty (40) federal award disbursements tested, the following conditions were noted related to purchase orders prepared:

Conditions	Number of Cases	Questioned Costs
1. Purchase order dated after Invoice date	1	\$ -

CRITERIA: Sound management requires that purchase orders be properly prepared and verified against invoices, to assure disbursements are later made correctly, and recorded in accounting records to assure proper budgetary control. This is required by Regulation on Basic Standards of the Municipalities of Puerto Rico, 1995, as amended, Chapter IV, Section 6.

Also, OMB Circular A-87, "Costs Principles for State, Local, and Indian Tribal Governments", states general requirements for the allowability of costs charged to a federal program. As stated in that circular, proper documentation of disbursements is necessary to support its allowability and accounting distribution.

CAUSE OF CONDITION: Control procedures to assure that purchase orders were properly prepared and verified by municipal officials before filing were not effective enough during this fiscal year. The preintervention department is not reviewing carefully all purchase orders made to detect and avoid these conditions.

EFFECT OF CONDITION: Purchases could be made not in compliance with applicable laws and regulations, and not be detected in a timely manner. This could lead to findings and questioned costs by State and Federal Awarding Agencies, which could be avoided if the preintervention process is properly performed. In addition, if purchase orders are not recorded in book of orders and contracts, budget accounts could be later over expended.

RECOMMENDATION: The Municipality should strengthen verification and monitoring procedures to assure purchase orders are properly prepared, and recorded in municipal accounting records.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

• **SUPPORTING DOCUMENTS OF COLLECTIONS AND REVENUES NOT AVAILABLE (FINDING #01-13)**

CONDITION: For twenty-five (25) revenues and collections examined, the following conditions were noted:

Conditions	Number of Cases
1. No deposits slips available	4
2. No evidence is available to support collections recorded	12

CRITERIA: Invoices, sales tax, letters, and deposit slips or other supporting evidence should be filed with the official receipt since it is the immediate supporting evidence to determine if the revenue collected is valid, reasonable and complete.

CAUSE OF CONDITION: The internal control procedures to assure that all funds collected and/or received have the corresponding evidence was not effective enough during fiscal year 2000-01. Also, this is required by Regulation on Basic Standards of the Municipalities of Puerto Rico, 1995, as amended, Chapter III.

EFFECT OF CONDITION: Supporting documents are the evidence used to determine if the amount collected is valid and complete. Because evidence was not provided, the amount collected could be underestimated or overestimated.

RECOMMENDATION: Immediately after collect funds, all supporting documents of the transaction should be filed and identified with a reference number.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

• **CUSTOMARY ACCOUNTING RECORDS AND DOCUMENTS NOT PREPARED OR WITH INCONSISTENT OR MISSING INFORMATION, AND TRANSACTIONS NOT RECORDED (FINDING #01-14) APPLICABLE TO MUNICIPALITY AND ALL FEDERAL AWARDS**

CONDITION: The Municipality does not have available on files, nor prepare certain customary accounting records and documents to account for municipal operations, nor recorded certain transactions like:

- Encumbrance register, detailing all unperformed (executory) contracts for goods and/or services ordered, but not yet received as of fiscal year end,
- Daily report of operations, named Model 3,
- Monthly reports of collections, named Model 28 and 28A, and monthly reports of collections and disbursements, named Model 29 and 29A,
- The Model 4(A), which summarizes the balance of all funds deposited on municipal bank accounts and the amounts of revenues and disbursements of each individual fund of the municipality, do not present all disbursements incurred during the fiscal year 2000-01. Also, this report is not done in a monthly basis, as required,
- Special funds revenues and expenditures are not being recorded in municipal registers, including cash book,
- One fund request for SBGP Award was not recorded in program books,
- For the SBGP Award, the Request for Release of Funds document (RROF) to ensure that the municipality observed the statutory requirement that funds cannot be expended or obligated before the State approves its RROF and environmental certification, except as otherwise provided specifically in regulation or authorized by law,
- Accounting records and books of federal awards were incomplete, and for some of them, transactions were not recorded during fiscal year,
- A certificate of deposit of \$890,000 included in the special revenue fund was cancelled and transferred to the special funds bank account. The cancellation of the certificate of deposit, the transfer and an official receipt were not prepared and recorded,

- Interest revenue from certificates of deposit were not recorded on accounting records,
- One certificate of deposit of \$500,000 included in the special revenue fund was cancelled, transferred to bank account of the general fund, and later the amount was transferred to the special funds bank account in the special revenue fund. The cancellation of the certificate of deposit, the transfers and an official receipt were not prepared and recorded,
- Bank reconciliations of several bank accounts of state and federal awards were not prepared. Also, several bank statements of accounts from state and federal awards were not available on municipal files,
- For one bank account of the SBGP award, the account conciliation include a check outstanding of over one year, and
- Certain budgetary accounts balances included in original approved budget do not trace to Model 30 Annual Summary of Revenue Operations, in section named "original amount in budget",
- For two bids, awarded through Federal Awards, related to improvements and repavement, the permits from the Army Corps of Engineers were not available on files, and
- Investments Register for certificaes of deposits (Investments) was not prepared.
- Quarterly Tax Returns of 941 PR Social Security, State Unemployment and Disability, and State Income Tax Withheld are not available on Municipal files.

Note: Alternate auditing procedures were performed to obtain and present balances included in the general purpose financial statements, except for cash of both the general and special revenue fund and the special fund revenues and expenditures, included in the special revenue fund. For federal awards, bank statements were used to obtain revenues and expenditures. See also report on compliance with requirements applicable to major programs and of internal control of OMB Circular A-133.

CRITERIA: As an appropriate internal control procedures, and to comply with laws and regulations presently in force, which requires the preparation of those documents and records, and their availability on files.

CAUSE OF CONDITION: There are no proper control procedures to assure that all accounting records and documents are properly prepared and verified, and once prepared, they are properly stored for future access on municipal files.

EFFECT OF CONDITION: Accurate and complete financial information is not available, and there is no proper documentation to support some transactions, if the required supporting documents and records are not prepared or properly filed once prepared.

RECOMMENDATION: The implementation of proper control procedures to assure that all accounting records and documents are properly prepared and verified, and once prepared, they are properly stored for future access on municipal files.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **EXPENDITURES LIMITATION AND AMOUNTS BUDGETED-ELECTIONARY PERIOD (FINDING # 01-15)**

CONDITION: During the period from July 1, 2000 to the date the new administration took office, some expenditures made by the municipality are in excess of the fifty (50) percent budgetary limitation imposed by law during electionary period. The fifty (50) percent of these budgeted accounts were over pended.

CRITERIA: Law # 81, of August 30, 1991, as amended, named Municipal Autonomous Law, Chapter VIII, Article 8.009 states that during the period from July 1, of each fiscal year in which general elections are made, and the date the elected administration took office, the municipality cannot expend or commit funds in excess of fifty (50) percent of the approved budget for that fiscal year.

CAUSE OF CONDITION: Amounts expended or committed were not carefully evaluated or monitored against budget during such period by finance personnel.

EFFECT OF CONDITION: Noncompliance with Law # 81, of August 30, 1991, as amended, named Municipal Autonomous Law, Chapter VIII, Article 8.009.

RECOMMENDATION: The implementation of proper control procedures to assure that for the next electionary period, Finance Department will monitor budget to assure is properly evaluated and compared in a regular basis against amounts committed and expended.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **EXCESS OF EXPENDITURES OVER BUDGETED BALANCES (FINDING #01-16)**

CONDITION: Some budget balances on amended budget for fiscal year 2000-01 were over expended (See the budget versus actual statement on pages 7 to 8). This represent a non compliance with Article 8.004(b) of Law #81.

CRITERIA: As stated in the Article 8.004 (b) of Law #81 named "Autonomous Municipalities of the Commonwealth of Puerto Rico Act of 1991", the municipality should not expend in excess of the amended budget.

CAUSE OF CONDITION: The budget prepared is not considering some expenditures items that will occur during the fiscal year, therefore, this creates al end of fiscal year a deficiency or over budget of this items

EFFECT OF CONDITION: The excess of budgeted expenditures creates unfavorable variances when compared to actual expense results.

RECOMMENDATION: For the overexpended items on budget, a more closely follow up should be given to avoid excess of disbursements over budgeted balances. An employee should be designated to oversee this compliance.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **INCOME TAX RETENTIONS MADE FROM PROFESSIONAL SERVICES (FINDING #01-17)**

CONDITION: For twenty-five (25) revenues and collections examined, the following conditions were noted regarding retentions made from professional services:

<u>Conditions</u>	Number of Cases
1. Amounts were incorrectly retained	1

Also, of forty-nine (49) disbursements examined of accounts payable, the following was noted:

<u>Conditions</u>	Number of Cases
1. Amounts retained were not send to Treasury Department on or before the fifteen day of the following month	1

CRITERIA: To comply with Section 1143, Internal Revenue Code of Puerto Rico of 1994, as amended.

CAUSE OF CONDITION: The internal control procedures to assure that tax retentions made form professional services paid are correct and submitted on time to Treasury Department were not effective enough during fiscal year 2000-01.

EFFECT OF CONDITION: Noncompliance with this law requirement could result in payment of charges and penalties.

RECOMMENDATION: To strengthen control procedures to assure that tax retentions made form professional services paid are correct and submitted on time to Treasury Department, to avoid penalties and late charges.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **SOCIAL SECURITY RETENTIONS MADE TAX RETENTIONS MADE FROM PROFESSIONAL SERVICES (FINDING #01-18)**

CONDITION: Social security retentions made to employees from payroll of June 2001 were deposited late, on August 2001. Deposit due date was July 15, 2001.

CRITERIA: To comply with Social Security regulations, which requires time limits to deposit amounts retained to employees.

CAUSE OF CONDITION: The internal control procedures to assure that retentions made of social security from payroll were timely deposited were not effective enough during fiscal year 2000-01.

EFFECT OF CONDITION: Noncompliance with this law requirement could result in payment of charges and penalties, ranging from 2% to 15%, depending date deposit is made after due date.

RECOMMENDATION: To strengthen control procedures to assure that retentions made of social security form payroll are timely deposited, to avoid penalties and late charges.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **MUNICIPALITY DOES NOT RECONCILIATE SALARIES REPORTED ON QUARTERLY TAX RETURNS (941 PR SOCIAL SECURITY) WITH ACCOUNTING RECORDS (FINDING #01-19)**

CONDITION: Salaries reported on Social Security tax Return (Form 941 PR) do not reflect balances recorded on general ledger, and such differences are not reconciled in another document. There is no internal control procedure implemented to assure that all salaries paid to employees are included on payroll tax returns prepared, and the amount recorded on general ledger for salaries paid is the same as the amount included on payroll tax returns prepared.

CRITERIA: As an appropriate internal control procedure, each document prepared should be conciliated with its supporting records. The accounting record is the source document for the preparation of the social security tax return.

CAUSE OF CONDITION: There is no integration between Payroll and Finance Department to assure data is consistent on 941 PR Tax returns and accounting records. The Municipality should establish procedures in order to conciliate each time a 941 PR return is prepared, to assure all salaries are properly included and traced to accounting records.

EFFECT OF CONDITION: If salaries are not conciliated with tax return, there could be an overpayment of payroll taxes. This could result in overpayment to the IRS or payment of interests and penalties for underpayment of taxes. Also, this represents a noncompliance with section 6651 of the Internal Revenue Code of the United States, which imposes, among other things, penalties to be added to the amount required to be shown as tax on the returns of 5% of the amount of such tax if the failure is for not more than one month, with an additional 5% for each additional month or fraction thereof during which such failure continues, not exceeding 25% in the aggregate.

RECOMMENDATION: We recommend to the finance department to conciliate the tax return form 941-PR with the general ledger on a quarterly basis, and to adjust any differences.

AUDITEE RESPONSE: See also corrective action plan prepared by the Municipality.

Part III - Findings and Questioned Costs Related to Federal Awards:

Note: Findings identified in section II as #01-1, 01-3, 01-4, 01-5, 01-6, 01-7, 01-9, 01-10, 01-11, 01-12, and 01-14 relates also to federal awards of the municipality.

• **BIDS FILES INCOMPLETE (FINDING #01-20) APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228)**

CONDITION: For five (5) bid files examined (representing all bids awarded by municipality during fiscal year, all made through SBGP award) the bid the files were incomplete in terms of the following:

<u>Conditions</u>	<u>Number of Cases</u>
1. Bid written proposals received from bidders were not stamped as received, detailing the date and the hour the proposal was received in municipality.	5
2. Bid proposals envelope received from bidders were not stamped as received, detailing the date and the hour the envelope was received in municipality	1
3. Evidence of bidder insurance policies (public responsibility and state insurance fund)	4
4. Evidence that entities participating in the bid are authorized to do business in Puerto Rico (copy of sales tax return)	4
5. Copy of payment and performance bonds	5
6. Letters send to all bidders participating in bid, detailing award decision, signed by Bid Board President	1
7. Proposals of Bidder not awarded	1

CRITERIA: the following applicable laws and regulations require this information and documents:

- a. Law # 81, of August 30, 1991, as amended, named Municipal Autonomous Law, Chapters VIII, Articles 8.016(c) and Chapter X, Articles 10.006, 10.006(a) and 10.006(c),
- b. Regulation on Basic Standards of the Municipalities of Puerto Rico, 1995, as amended, Chapter VIII, Part III, Sections 5(1), 5(4), and 5(9), and 12, and
- c. Applicable codified common rule for HUD Programs, 24 CFR 85.36(h)(2) and (3)

Title 24 – Housing and Urban Development, Volume 1 of the Code of Federal Regulations, Part 85, “Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)”, Subpart C –“Changes, Property, and Subawards”, Section 36 (h) “Procurement – Bonding Requirements”, states that:

For construction or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold, the awarding agency may accept the bonding policy and requirements of the grantee or subgrantee provided the awarding agency has made a determination that the awarding agency's interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows:

(1) A bid guarantee from each bidder equivalent to five percent of the bid price. The "bid guarantee" shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of his bid, execute such contractual documents as may be required within the time specified,

(2) A performance bond on the part of the contractor for 100 percent of the contract price, and,

(3) A payment bond on the part of the contractor for 100 percent of the contract price.

CAUSE OF CONDITION: The auditee has not implemented a strict policy of verifying all bid files prepared for every bid celebrated, to assure that all documentation required under internal control policies and applicable laws and regulations is available, before filing them. Although files are prepared for each bid celebrated, the procurement office does not perform a detailed verification of the documentation prepared and obtained from the bid, following a checklist or other verification method.

EFFECT OF CONDITION: Bids are not properly documented, and municipal interests are not adequately protected.

Also, without documentation that the bidder awarded or contractor obtained a payment and performance bond, we were unable to verify that the municipality was adequately covered, in case the bidder awarded or contractor failed to complete contract according to their terms. By definition:

1. A performance bond guarantees performance of the terms of the contract. They frequently incorporate the payment bond and a maintenance bond liability. This protects the municipality from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.
2. A payment bond guarantees payment of the contractor's obligation under the contract for subcontractors, laborers, and materials suppliers associated with the project.

RECOMMENDATION: To implement review procedures to assure that all the bid files includes all documents required by applicable laws and regulations. An employee independent of the Finance Department and the Bid Board should be designated to oversee this procedure.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **BID AWARDED NOT TO THE LOWEST BIDDER (FINDING #01-21) APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228)**

CONDITION: For one bid awarded on October 2000, of a sample of five (5) bid files (representing all bids awarded by municipality during fiscal year, all made through SBGP award), the lowest bid was \$75,247. The municipality awarded the bid to another bidder for \$96,994, a difference of \$21,747. The reasons stated by Bid Board, on bid minutes prepared, for not awarding the bid to the lowest bidder were that the bidder do not submit to the Board the required certifications from Treasury Department, Center for Municipal Collections (CRIM), and ASUME, stating that the bidder has no debts outstanding, and that the audited financial statements were also not provided. Nevertheless, a sworn affidavit was submitted by the lowest bidder on May 2000, stating that the company it represents started operations on January 2000, and since it is a new corporation, no tax returns and financial statements have been prepared or submitted at moment of bid.

CRITERIA: Chapter X, Article 10.006(a) of Law # 81, of August 30, 1991, as amended, named Municipal Autonomous Law, requires to document in writing the reasons for not awarding the bid to a lowest bidder.

Also, Title 24 – Housing and Urban Development, Volume 1 of the Code of Federal Regulations, Part 85, “Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule)”, Subpart C –“Changes, Property, and Subawards”, Section 36 (f), requires bid files, including appropriate cost or price analysis documented, and analysis supporting the procurement action.

Although the municipal Bid Board documented the reasons in written, based on documentation available, the reasons provided by Bid Board for not awarding bid to the lowest bidder and sworn affidavit provided by bidder, bid could de awarded at that moment to the lowest bidder of \$75,247.

CAUSE OF CONDITION: Cause of condition is not readily ascertainable.

EFFECT OF CONDITION: Municipal interets were not adequately protected.

RECOMMENDATION: Before deciding on awarding a bid, to evaluate more carefully documentation available to assure the decision made is the one that best protects municipal interests.

QUESTIONED COSTS: \$21,747.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **NONCOMPLIANCE WITH CASH MANAGEMENT REQUIREMENTS (FINDING #01-22) - APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA #14.228) AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: The following conditions were noted regarding cash management:

1. In some instances, funds received by the municipality from federal awards could not be traced to specific disbursements subsequently made, and therefore, it could not be verified if funds requested were used only to cover immediate program needs and expended in a reasonable period of time. Funds are requested based on commitments incurred and detailed by municipality on funds request. Nevertheless, some expenditures subsequently made are not directly traceable to these commitments incurred.
2. In some instances, funds received by the municipality from federal awards are traceable to specific disbursements subsequently made, but disbursements are not made within a reasonable period of time.
3. It was noted that bank account of the SBGP Award maintained excessive balances for extended periods of time. For example:

<u>Months</u>	Average Balance
• February 2001	\$195,577
• March 2001	355,953
• April 2001	276,594

CRITERIA: CFR Title 24, Housing and Urban Development, Part 85, Subpart C, Section 85.20 (b)(7), and CFR 45, Public Welfare, Part 92, Section 92.20, Cash Management, establishes that funds must be requested only to cover immediate financial needs, and procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantee must be followed.

CAUSE OF CONDITION: The Municipality's Internal Control Procedures to comply with this requirement were not effective enough during fiscal year 2000-01.

EFFECT OF CONDITION: The federal programs department is requesting funds in excess of the immediate expenditures incurred or their immediate program needs, not complying with CFR Title 24, 85.20 (b)(7), and with CFR 45, 92.20, mentioned above.

RECOMMENDATION: To strengthen the system for requesting federal funds to be adequate enough to satisfy immediate expenditures incurred by each federal programs, and to avoid maintaining excessive cash balances in bank accounts. Also to assure that each disbursement is identified to specific needs detailed on funds request.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **FINANCIAL REPORTS (FINDING #01-23) - APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD CFDA# 14.228 AND CHILD CARE AWARD (CFDA #93.575)**

CONDITION: The Federal Programs Department of the municipality is not preparing any financial reports related to the administration of the federal awards, and for the SBGP Award, no report was sent to the awarding agency nor the Commissioner Office for Municipal Affairs (OCAM), during fiscal year 2000-01.

CRITERIA: As required by federal regulations, recipients of federal awards should use the standard financial reporting forms or such other forms as may be authorized by OMB. These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency.

CAUSE OF CONDITION: The Municipality's internal control procedure to assure that reports related to the administration of the federal awards are prepared and sent to the respective agencies within time limits required was not effective enough during fiscal year 2000-01.

EFFECT OF CONDITION: The Federal Programs Department of the municipality is not in compliance with federal regulations regarding financial reporting.

RECOMMENDATION: The Federal Programs Department should strengthen control procedures to assure that financial reports of the federal awards are prepared and sent to awarding agencies. Once reports are prepared. The Department should trace the amounts reported to accounting records that support the schedule of expenditures of Federal awards and verify agreement, accuracy and completeness of the reports and that they agree with the accounting records.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

- **NONCOMPLIANCE WITH DAVIS-BACON ACT (FINDING #01-24) - APPLICABLE TO COMMUNITY DEVELOPMENT BLOCK GRANT STATES' PROGRAM (SBGP) AWARD (CFDA# 14.228)**

CONDITION: Project payroll reviews are not being performed as required by the Davis-Bacon Act, to assure labor classifications are correct and prevailing wages were paid.

CRITERIA: The United States Code (USC) Title 40, Sections 276 a to 276 a-7, states that "for every contract in excess of \$ 2,000, for construction, alteration, and/or repair, including painting and decorating, of public buildings, and which requires or involves the employment of mechanics and/or laborers, the contractor shall pay all mechanics and laborers employed directly upon the site of the work, the full amounts accrued at time of payment, computed at

wage rates not less than those stated in the advertised specifications, regardless of any contractual relationship which may be alleged to exist between the contractor or subcontractor and such laborers and mechanics". Therefore, the municipality is responsible to ensure that contractors and subcontractors comply with these requirements.

EFFECT OF CONDITION: The municipality is not in compliance with The United States Code (USC) Title 40, Sections 276 a to 276 a-7, and in the event that any laborer or mechanic employed by the contractor or subcontractor directly on the site of the work covered by the contract has been paid or is being paid a rate of wages less than the rate of wages required by the contract to be paid as aforesaid, the government may, by written notice to the contractor or subcontractor, terminate his right to proceed with the work or such part of the work as to which there has been a failure to pay said required wages and to prosecute the work to completion by contract or otherwise.

RECOMMENDATION: The municipality should strengthen present internal control procedures to ascertain that a review procedure is implemented for the hourly wage rates paid to all employees of contractors and/or subcontractors working at project sites, to ensure prevailing wages are paid throughout the contract as submitted by the contractor and/or subcontractor.

Also to instruct municipal personnel to monitor payment of prevailing wage rates in those contracts.

QUESTIONED COSTS: Amount questioned is not readily ascertainable or not applicable.

AUDITEE RESPONSE: See corrective action plan prepared by the Municipality.

TOTAL QUESTIONED COSTS:

SBGP AWARD	\$1,048,723
CHILD CARE	<u>11,556</u>
TOTAL	\$1,060,279
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**MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001**

<u>Fiscal Years of Audit Reports</u>	<u>Findings</u>	<u>Comments</u>
1. 1999-00	During fiscal year 1999-00 no questioned costs were included on schedule of findings and questioned costs.	No Comments.
2. 1996-97 1997-98 1998-99 1999-00	The Municipality do not have available complete property records, based on a physical inventory count.	Situation still prevails (Finding #01-1).
3. 1996-97 1997-98 1998-99 1999-00	The Municipality does not have an Internal Auditor.	Situation Corrected during fiscal year 2000-01. An internal auditor was designated.
4. 1996-97 1997-98 1998-99 1999-00	Salaries reported on Social Security Tax Return (form 941-PR) do not agree with the salaries recorded in the general ledger, and the difference is not reconciled in another document.	Situation still prevails (Finding #01-19).
5. 1996-97 1997-98 1998-99 1999-00	The Municipality's federal revenues and expenditures detail prepared from accounting records do not reconcile with the monthly summary report named Model 4(a), also prepared by Municipality from accounting records.	Situation still prevails (Finding #00-14). Also, during fiscal year 2000-01 several other documents and reports were not prepared, some documents are not available, and some transactions were not recorded. See finding #01-14 for a detail.

MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
JUNE 30, 2001
(CONTINUED)

<u>Fiscal Years of Audit Reports</u>	<u>Findings</u>	<u>Comments</u>
6. 1996-97 1997-98 1998-99 1999-00	For fiscal year 1999-00, the Municipality submitted the financial statement and single audit reports on November 2001, which is Seventeen (17) months after the end of the audit period, June 30, 2000.	Situation Corrected. Financial statements and single audit reports were issued on January 2002, within time limits required by OMB Circular A-133.
7. 1998-99 1999-00	Certain customary accounting records and documents were not prepared by Municipality.	Situation still prevails (Finding #00-14). Also, during fiscal year 2000-01 several other documents and reports were not prepared, some documents are not available, and some transactions were not recorded. See finding #01-14 for a detail.
8. 1998-99 1999-00	Employee files incomplete.	Situation still prevails (finding # 01-2).
9. 1998-99 1999-00	Written Bid Minutes incomplete.	Situation not detected during fiscal year 2000-01. Corrected.
10. 1999-00	Mayor's Resolutions documents for fiscal year 1999-00 detailing adjustment increasing and/or decreasing original budget accounts were not prepared. Therefore, we could not verify if the adjustments made to the original budget increasing and/or decreasing budgetary accounts were properly made.	Situation Corrected.
11. 1999-00	Contracts examined do not have all clauses required by laws and regulations.	Situation still prevails (Finding #01-3).
12. 1999-00	One (1) contract of a sample of fifteen (15) examined was not available.	Situation not detected during fiscal year 2000-01. Corrected.

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2001
 (CONTINUED)**

<u>Fiscal Years of Audit Reports</u>	<u>Findings</u>	<u>Comments</u>
13. 1996-97 1997-98 1998-99 1999-00	Some contracts were not submitted to the Comptroller's Office, as required by Ruling #33, based on Law number #18, as amended	Situation still prevails (Finding #01-5).
14. 1999-00	For four (4) collections and/or revenue items, out of a sample of fifteen (15) examined which represent 27%, the supporting evidence of the collections and/or revenue items was not available on Municipal files.	Situation still prevails (Finding #01-13).
15. 1999-00	Three (3) disbursements made of a sample of fifteen (15) for purchase under \$10,000 did not have written quotations as evidence of price solicitation to suppliers	Situation still prevails (Finding #01-6).
16. 1999-00	For ten (10) disbursements tested, one (1) disbursement was not available for examination, and therefore, could not be evaluated if it was properly supported and if it represents an accounts payable at June 30, 2000. Also, since no documentation is available, we cannot verify if such disbursement was properly verified and approved before payment.	Situation still prevails (Finding #01-9).
17. 1999-00	Some budgeted balances on amended budget for fiscal year 1999-00 were over expended. This represent a non compliance with Article 8.004(b) of Law #81.	Situation not detected during fiscal year 2000-01. Corrected

**MUNICIPALITY OF CULEBRA, PUERTO RICO
 SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2001
 (CONTINUED)**

<u>Fiscal Years of Audit Reports</u>	<u>Findings</u>	<u>Comments</u>
18. 1999-00	For one (1) bid out of a sample of four (4) examined, the bid was awarded to a bidder that did not comply with all specifications, as explained in the bid minute.	Situation still prevails (Findings #01-19 and 01-20).
19. 1999-00	For two bid files out of a sample of four examined the bid the files were incomplete in terms of certification letter of funds, signed written contracts with bidder, evidence of bidder's insurance policy, evidence of debt certification and evidence of bidder's sales tax return.	Situation still prevails (Finding #01-20).
20. 1999-00	For two (2) bids files selected for examination bids awarded files were not provided to support bid process.	Situation not detected during fiscal year 2000-01. Corrected.
21. 1999-00	One bank account of the FEMA Award was maintained with excessive cash balance of \$303,399 over long periods of time, which represents a noncompliance with cash management requirements.	Situation still prevails (Findings #01-22). For fiscal year 2000-01 applies to the Community Development Block Grant State's Program (SBGP) and the Child Care awards.
22. 1999-00	All expenditures report examined of the SBGP award do not have the transmittal letter including the date in which the report was send to The Office of the Commissioner Office for Municipal Affairs (OCAM)	Situation still prevails (Finding #01-23). For fiscal year 2000-01 no evidence of reports prepared or send to federal awarding agencies was available.

MUNICIPALITY OF CULEBRA, PUERTO RICO
SCHEDULE OF PRIOR AUDITS' FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001



ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE CULEBRA

OFICINA DEL ALCALDE
CULEBRA, PUERTO RICO 00775



January 15, 2002

Municipality of Culebra, Puerto Rico
Corrective Action Plan
June 30, 2001

Prepared by: The Mayor's Office and the Auditor Department

The following represents the corrective action plan to correct findings and conditions noted and included on single audit report of fiscal year ended June 30, 2000, and the schedule of prior audits findings and questioned costs accompanying this report.

Finding No.01-01, page 36

Description: Financial Management System – Property Records

Person In charge of the corrective action: Yaritza Bermúdez
Title: Property Office Clerk

Corrective Action Plan: The Municipality of Culebra works on the annual physical inventory to correct any difference between accounting records and physical inventory. Some inventory disposal made during the first months of year 2001 and will continue until accounting records represent the Actual Inventory. Property record will include, acquisition dates, disbursement order number, property number, model or serial number, property description, property transfer, property receive and supplier name.

Date for the implementation: For Fiscal Year 2001-02

Person in charge of follow up the corrective action: Aldo González Peña, Internal Auditor.

Finding No.01-02, page 37

Description: Employees files incomplete. The Municipality of Culebra should maintain complete employee files, with specific documents required, and it should be update periodically.

Person in charge of the corrective action: Luis R. Rivera Soto
Title: Personnel Director

Corrective Action Plan: The Personnel Department should include for each employee file the following: notification of employment agreement (Form I-9), designation of beneficiaries, earning records, certificated of exemptions, certificate of birth, certificate of the Police Department, health certificate, and others.

Date for implementation: For fiscal year 2001-02

Person in charge of follow up for the corrective action: Luis R.Rivera Soto

Finding No.01-03. page 37,38,39

Description: Contracts without required clauses and information applicable to municipality and community development block grant states program (SBGP) award contracts (CFDA).

Person in charge of the corrective action: Billy Riesgo
Title: Federal Program Director .

Corrective Action Plan: An internal contractual checklist guide will be prepare to assure that contract comply with all Federal, State, and Municipal regulations. All contracts will include a clause indicating contracted party do not receive any compensation for regular service rendered as official of another public entity, unless authorized by law. Clause that indicates contracted party has no tax debts, and if had, is under payment plan, and clause that indicates that they required 7% retention (or the applicable) will be made unless a release from Treasure Department is presented.

Date for the implementation: For Fiscal Year 2001-02

Person in charge of follow up for the corrective action: Hon. Iván Romero Peña, Mayor of the Municipality of Culebra.

Finding No.01-04. page 39,40

Description: Contract prepared contains incomplete information applicable to municipality and community development block grant states program (SBGP) award contract.

Person in charge of corrective action: Morayma Valentín
Title: Finance Director.

Corrective Action Plan: The Municipality of Culebra has a strength control payment through its Pre-intervention Department. Payments for contract, properties and supplies are properly verified before the release of payment. The difference between \$493,709 and \$405.651 dollars could be a written mistake or a misunderstanding error. No over payment was detected by Torres CPA Group.

Finding No.01-05. page 41

Description: Contracts not send to the Comptroller's Office.

Person in charge of the corrective action: Cyndimar Villanueva
Title: Bid Board Secretary of the Municipality of Culebra

Corrective Action Plan: Contracts will be send to The Office of Comptroller fifteen (15) labor days after signed by parties as required by law.

Date of implementation: January 01, 2001

Person in charge of follow up for the corrective action: Roberto Feliciano, Municipal Officer

Finding No.01-6, page 40.41

Description: Quotation not available for purchase made applicable to municipality and child care award (CFDA#93.575).

Person in charge of the corrective action: Lizbeth Adorno
Title: Official Purchaser.

Corrective Action Plan: Three quotation will be required by phone or fax for the purchase of goods and services for the Municipality of Culebra from suppliers before place an order. These procedures comply with Chapter VIII, Article 8.005 of Law No.81, as amended, of August 30, 1991.

Date for implementation: For fiscal year 2001-02

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Finding No.01-07, page 41.42

Description: Supporting documents of disbursement transactions were not stamped as cancelled paid applicable to municipality and to Community Development Block Grant States Program and Award and Child Care Award (SBGP)(CFDA 14.228)

Person in charge of the corrective action: Iris Alvarez
Title: Accounting Clerk

Corrective Action Plan: All disbursement vouchers and its supporting documents will be properly identified as canceled paid to avoid the possibility of paying twice

Date for implementation: For fiscal year 2001-2002

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Finding No.01-08, pages 42.43

Description: Documentation of review of funds available in budgetary account on purchase order.

Corrective Action Plan: Mrs. Morayma Valentín will require from Iris Alvarez, Office Clerk of the Municipality of Culebra a weekly balance report for budget accounts. Follow up will be given by the Finance Director to avoid excess of disbursements over budgeted balances. . .

Date for implementation: For fiscal year 2001-02.

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director

Finding No.01-09, page 43,44

Description: Supporting evidence of disbursements was not available applicable to municipality and to community development Block Grant States Program (SBGP) award and child care award CFDA #93.575

Person in charge of corrective action: Iris Alvarez and Yomary Munet.
Title: Auditing Clerks

Corrective Action Plan: Quotations, Municipal Orders for goods and services, receiving reports, and invoices will be required before payment.

Date of implementation: Fiscal Year 2001-2002

Person in charge of follow for the corrective action: Morayma Valentín, Finance Director.

Corrective Action Plan: Mrs. Morayma Valentín will require from Iris Alvarez, Office Clerk of the Municipality of Culebra a weekly balance report for budget accounts. Follow up will be given by the Finance Director to avoid excess of disbursements over budgeted balances.

Date for implementation: First week of November 2001.

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director

Finding No.01-10 pages 44.45

Description: Supporting documents of disbursement transaction not identified as pre-intervened applicable to municipality and to Community Development Block Grant States' Program (SBGP) award and child care award (CDFA #93.575)

Person in charge of corrective action: Iris Alvaréz
Title: Accounting Clerk.

Corrective Action Plan: All disbursement vouchers and its supporting documents will be properly identified as canceled paid to avoid the possibility of paying twice.

Date for implementation: For fiscal year 2001-2002

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Finding No.01-11, page 44.45

Description: Supporting documents of disbursement transaction not signed by municipal official applicable to municipality and to Community Development Block Grant States' Program (SBGP) and Child Care Awarded (CFDA #93.675)

Person in charge of corrective action: Mrs.Morayma Valentín
Title: Finance Director

Corrective Action Plan: The pre-intervention department will review all purchase orders and disbursements made to detect and avoid release of payments before the approval of the Municipal Officials.

Date for the implementation: For fiscal Year 2001-2002

Person in charge of follow up for the corrective action: Mrs. Marayma Valentín, Finance Director.

Person in charge of follow up for to corrective action: Mrs. Roberto Feliciano, Officer Manager.

Finding No.01-12, pages 46.47

Description: Purchase orders prepared applicable to municipality and to Community Development Block Grant States' Program (SBGP) and Child Care Award (CFDA #14.228)

Corrective Action Plan: Findings No.01-07, 01-09, 01-10, 01-12 deal with the pre-intervention department for the disbursement procedures before the release of payments to supplier, contractual parties or others. In forty. (40) federal award disbursements tested, only one case had the order date after the invoice date. This finding, (No.12), had

been mentioned in finding No.9 and No.10. This is an immaterial ratio. Future auditing should compile all disbursement findings from the pre-intervention department in one or two findings.

Finding No.01-13, page 47

Description: Supporting documents of collections and revenues not available.

Person in charge of the corrective action: Shirley Nazario Romero
Title: Treasury Department Collector.

Corrective Action Plan: Invoices, sales tax, letters and deposit slips will be filed with the official receipt to support the amount collected.

Date for implementation: January 01, 2002

Person in charge of follow up for the corrective action: Morayma Valentín, Finance Department Director.

Finding No.01-14, page 48.49

Description: Customary accounting records and documents not prepared or with inconsistent or missing information, and transaction not recorded applicable to municipality and all federal awards.

Person in charge of the corrective action: Shirley Nazario Romero.
Title: Treasury Department Collector

Corrective Action Plan: Shirley Nazario Romero and The Finance Department will prepare the following:

- 1) Daily report of operations (Model 3)
- 2) Monthly reports of collections, named Model 28 and 28A
- 3) Monthly reports of collections and disbursements named Model 29 and 29A
- 4) The Model Report 4A
- 5) Bank reconciliation for Payroll Accounts.

6) Accounting records and books for federal and municipality transactions will be completed by fiscal year 2001-02.

Date for implementation: Bank reconciliation is done. Other reports were done first week of December 2001.

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Finding No.01-15 page 49.50

Description: Expenditures limitation and amounts budgeted-electoral period.

Person in charge of the corrective action: Mrs. Morayma Valentín
Title: Finance Director

Corrective Action Plan: For the next electoral period. Finance Department will monitor budget to assure is properly evaluated and compared in a regular basis against amounts committed and expended.

Date of implementation: For fiscal year 2001-02

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Finding No.01-16. pages 50

Description: Excess of expenditures over budgeted balance.

Corrective Action Plan: Mrs. Morayma Valentín will require from Iris Alvarez, Office Clerk of the Municipality of Culebra a weekly balance report for budget accounts. Follow up will be given by the Finance Director to avoid excess of disbursements over budgeted balances.

Person in charge of the corrective action: Mrs. Morayma Valentín
Title: Finance Director

Date for implementation: For fiscal year 2001-02.

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director

Finding No.17. page 50.51

Description: Income tax retention made from professional services

Corrective Action Plan: An employee from the Finance Department will keep accounting records for professional service contracts including contract copies, payments, income tax retention, contract amount, and others.

Person in charge of the corrective action: Ileana Feliciano
Title: Accounting Clerk.

Date for implementation: For fiscal year 2001-02

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín. Finance Director.

Finding No.01-18 page 51

Description: Social Security retention made to municipality employees.

Person in charge of the corrective action: Gloria Vázquez
Title: Accounting Clerk.

Corrective Action Plan: Social Security retention will be deposit on or before the third labor day after payroll payments.

Date for the implementation: January 01, 2002

Person in charge of follow up for the Corrective Action: Morayma Valentín. Finance Director.

Finding No.01-19 page 52

Description: Municipality does not re-conciliate salaries reported in quarterly tax returns (941 PR Social Security) and accounting records.

Person in charge of the corrective action: Ileana Feliciano
Title: Accounting Clerk.

Corrective Action Plan: The Finance Director and The Office of the Commissioner for Municipality Affairs will integrate the Payroll Program to the Accounting System. This program improves the quality of the information and submits accurate payroll reports. The Finance Director shall conciliate the accounting records with Social Security Tax Return on a quarterly and annually basis. (Form 941 PR)

Date for implementation: January 1, 2001

Person in charge of follow up for the Corrective Action: Mrs. Morayma Valentín. Finance Director.

Finding No.01-20 page 52.53.54

Description: Bids file incomplete applicable to Community Development Block Grant States' program (SBGP) AWARD (CFDA #14.228)

Person in charge of the corrective action: Cindymar Villanueva
Title: Bid Board Secretary of the Municipality of Culebra.

Corrective Action Plan: An internal contractual checklist will be prepared to assure that contract comply with Federal, State and Municipal regulation. The Municipality of Culebra will require from bidder evidence of bidder public insurance responsibility, stated insurance fund, evidence that bidder is authorized to do business in Puerto Rico, copy of payment and performance bonds and others.

Date for the implementation: For fiscal year 2001-02

Person in charge of follow up for the corrective action: Morayma Valentín, Finance Director.

Finding No.21, pages 54-55

Description: Bid awarded not to the lowest bidder applicable to Community Development Block Grant States' Program (SBGP) award (CFDA #14.228)

Corrective Action Plan: No corrective action plan to this finding. There is no financial base to analyze the financial position with the other bidder. A sworn affidavit stating that the company it represents started operation on January 2000 and since it is a new corporation, no tax returns and financial statements have been prepared or submitted at the moment of bid. This situation gives us no base of the financial position of the lowest bidder. At least a partial financial statement at the moment of the bid should be submitted. We understand that the project was totally completed without any problem.

Finding No.22, pages 55-56

Description: Noncompliance with cash management requirements applicable to Community Development Block Grant States' Program (SBGP) Award (CFDA # 14.228) And Child Care Award (CFDA # 93.575)

Person in charge of the corrective action: Billy Riesgo
Title: Federal Programs Director.

Corrective Action Plan: The Federal Program Director will trace through its order and contract register the amount of federal funds requested and received and the amount of funds disbursement for each program or project and avoid maintaining excessive cash balances in bank accounts and assures that each disbursement is identified to specific funds project.

Date for implementation: January 1, 2001.

Person in charge of follow up for the corrective action: Morayma Valentín, Finance Director.

Findings No.23, page 56-57

Description: Financial Reports applicable to Community Development Block Grant States' Program (SBGP) Award (CFDA# 14.228 And Child Care Award (CFDA #93.575)

Person in charge of the corrective action: Billy Riesgo
Title: Federal Program Director

Corrective Action Plan: The Federal Programs Department of the Municipality will prepare and send all financial reports related to the administration of the federal awards, and for the SBGP Award to the federal awarding agencies and the Commissioner Office for Municipal Affairs.

Person in charge of follow up for the corrective action: Mrs. Morayma Valentín, Finance Director.

Date for the implementation: For March 1, 2001

Finding No.01-24 page 57.58

Description: Noncompliance with Davis-Bacon Act applicable Community Development Block Grant States' Program (SBGP) award (CFDA # 14.228)

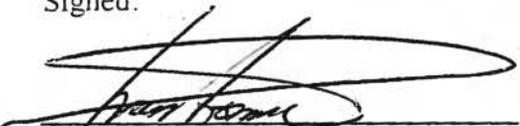
Person in charge of the corrective action: Sandra Colón
Title: Accounting Clerk.

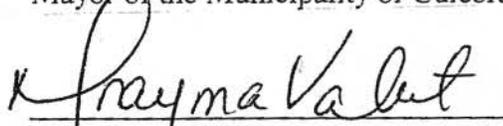
Corrective Action Plan: An employee from the federal department will verified that all contractor or subcontractor will pay wages to their labors according to the federal prevailing wages and labor classifications.

Person in charge of follow up for the corrective action: Billy Riesgo, Federal Program Director.

Date for the implementation: For fiscal year 2001-02

Signed:


Hón. Iván Romero Peña
Mayor of the Municipality of Culebra


Morayma Valentín
Finance Director