

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE DORADO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF DORADO

YEAR ENDED JUNE 30, 2001

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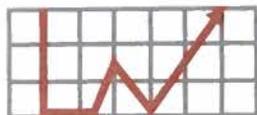
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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Dorado**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Dorado** as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund type 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 February 15, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

INDEPENDENT AUDITORS' REPORT (Continued)

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of Dorado**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2002

Stamp No 1700931 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES			PROPRIETARY	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	General Fixed Assets		General Long-term Debt
ASSETS AND OTHER DEBITS								
Cash and cash equivalents	\$4,419,166	\$965,237		\$589,768	\$705,064			\$6,679,235
Cash with fiscal agent			\$3,132,932	4,121,834	455,351			7,710,117
Intergovernmental receivables	2,249,589							2,249,589
Municipal license taxes receivable	1,000							1,000
Federal grants receivable		127,641						127,641
Due from other funds	439,573	41,793			15,454			496,820
Other receivables	128,946							128,946
Land					388,790			388,790
Building, net of depreciation of \$435,490					3,101,968			3,101,968
Property and equipment						\$16,037,500		16,037,500
Amount available in Debt Service Fund							\$3,132,932	3,132,932
Amount to be provided for retirement of general long-term debt							16,745,349	16,745,349
Total assets and other debits	\$7,238,274	\$1,134,671	\$3,132,932	\$4,711,602	\$4,666,627	\$16,037,500	\$19,878,281	\$56,799,887
LIABILITIES, FUND EQUITY, AND OTHER CREDITS								
Liabilities:								
Accounts payable and accrued liabilities	116,709	82,593		101,869				\$301,171
Due to other funds	57,247	405,391			34,182			496,820
Due to other governmental entities	224,239					524,528		748,767
Deferred municipal license tax revenues	2,410,395							2,410,395
Deferred federal grant revenues		539,500						539,500
General obligation bonds					1,790,704	12,730,000		14,520,704
Notes payable						2,998,688		2,998,688
Interest payable					64,913			64,913
Lease obligation payable						131,520		131,520
Accrued landfill obligations						2,113,000		2,113,000
Accrued compensated absences						1,380,545		1,380,545
Total liabilities	2,808,590	1,027,484		101,869	1,889,799		19,878,281	25,706,023
Fund equity and other credits:								
Investment in general fixed assets						16,037,500		16,037,500
Fund balances:								
Reserved for encumbrances	545,225							545,225
Reserved for debt service			3,132,932					3,132,932
Unreserved:								
Designated for specific fund purposes		107,187		4,609,733				4,716,920
Undesignated	3,884,459							3,884,459
Retained earnings					2,776,828			2,776,828
Total fund equity and other credits	4,429,684	107,187	3,132,932	4,609,733	2,776,828	16,037,500		31,093,864
Total liabilities, fund equity and other credits	\$7,238,274	\$1,134,671	\$3,132,932	\$4,711,602	\$4,666,627	\$16,037,500	\$19,878,281	\$56,799,887

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
COMBINED STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND BALANCES/RETAINED EARNINGS
ALL GOVERNMENTAL AND PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise Fund	
REVENUES						
Property taxes	\$6,945,124		\$1,988,896			\$8,934,020
Municipal license taxes	3,628,098					3,628,098
Licenses and permits	2,055,525					2,055,525
Intergovernmental	1,964,869	\$13,350		\$74,793		2,053,012
Rent of property	242,314				\$313,845	556,159
Fines and penalties	3,825					3,825
Interest	859,586					859,586
Federal grants		5,121,587				5,121,587
Miscellaneous	198,091					198,091
Total revenues	15,897,432	5,134,937	1,988,896	74,793	313,845	23,409,903
EXPENDITURES/EXPENSES						
Current:						
Mayor and Municipal Assembly	1,838,408					1,838,408
General government	4,882,169	221,901				5,104,070
Public safety	652,422	325,987				978,409
Public works	4,758,865					4,758,865
Public health and sanitation	653,257					653,257
Welfare		3,834,070				3,834,070
Economic development		33,030				33,030
Recreation	426,980	7,500				434,480
Other		22,151				22,151
Depreciation					88,436	88,436
Debt service:						
Principal retirement	195,771	585,000	945,000		37,025	1,762,796
Interest	144,303	72,747	717,370		98,198	1,032,618
Capital outlays	221,885	272,075		2,818,632		3,312,592
Total expenditures/expenses	13,774,060	5,374,461	1,662,370	2,818,632	223,659	23,853,182
Excess (deficiency) of revenues over (under) expenditures/expenses	2,123,372	(239,524)	326,526	(2,743,839)	90,186	(443,279)
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes issuance				2,340,000		2,340,000
Total other financing sources (uses)				2,340,000		2,340,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing sources (uses)	2,123,372	(239,524)	326,526	(403,839)	90,186	1,896,721
Fund balances/retained earnings, beginning, as restated	2,306,312	346,711	2,806,406	5,013,572	2,686,642	13,159,643
Fund balances/retained earnings, ending	\$4,429,684	\$107,187	\$3,132,932	\$4,609,733	\$2,776,828	\$15,056,364

See accompanying notes to general purpose financial statements.

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

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$6,411,322	\$6,565,487	\$154,165	\$1,535,969	\$2,105,028	\$569,059
Municipal license taxes	2,495,000	3,628,098	1,133,098			
Licenses and permits	1,010,200	2,055,525	1,045,325			
Intergovernmental	1,803,848	1,964,869	161,021			
Rent of property	299,089	242,314	(56,775)			
Fines and penalties	3,100	3,825	725			
Interest	700,100	859,586	159,486			
Miscellaneous	554,500	198,091	(356,409)			
Total revenues before carryover	13,277,159	15,517,795	2,240,636	1,535,969	2,105,028	569,059
Budgeted carryover (1)	1,936,053	1,936,053				
Total revenues and budget carryover	15,213,212	17,453,848	2,240,636	1,535,969	2,105,028	569,059
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	2,074,548	1,951,895	122,653			
General government	5,241,152	5,081,739	159,413			
Public safety	1,037,701	691,040	346,661			
Public works	4,866,306	4,952,415	(86,109)			
Public health and sanitation	758,269	653,257	105,012			
Recreation	481,491	426,980	54,511			
Capital outlays	254,460	221,885	32,575			
Debt service:						
Principal retirement	195,771	195,771		882,955	1,662,371	(779,416)
Interest	303,514	144,303	159,211	653,014	116,131	536,883
Total expenditures and encumbrances	15,213,212	14,319,285	893,927	1,535,969	1,778,502	(242,533)
Excess (deficiency) of revenues over (under) expenditures and encumbrances		3,134,563	3,134,563		326,526	326,526
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Current year encumbrances treated as current year expenditures for budgetary basis		545,225				
GAAP adjustments to revenues		379,637				
Prior year encumbrances recorded as current year expenditures for GAAP basis		-				
Fund balances, beginning, as restated		2,306,312			2,806,406	
Less budgeted carryover (1)		(1,936,053)				
Fund balances, ending		\$4,429,684			\$3,132,932	

1) Budget include fund balances carried over from prior years. It is not revenue of the current period, but is presented as revenue only for budgetary reporting purposes.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2001

Cash flows from operating activities:

Cash received from customers	\$ 331,635
Cash paid to suppliers and employees	(18,767)
Interest paid	<u>(77,961)</u>
Net cash provided (used) by operating activities	<u>234,907</u>

Cash flows from financing activities:

Repayment of revenue bonds	<u>(79,269)</u>
Net cash used by financing activities	<u>(79,269)</u>
Net increase in cash and cash equivalent, restricted	155,638
Cash and Cash equivalents at beginning of period, restricted , as restated	<u>1,004,777</u>
Cash and Cash equivalents at end of period, restricted	<u>\$ 1,160,415</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 90,186</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	88,436
Interest receivables	28,039
Other receivables	5,613
Due from other funds	(15,454)
Accrued expenses	3,904
Due to other funds	<u>34,183</u>
Total adjustments	<u>144,721</u>
Net cash provided (used) by operating activities	<u>\$ 234,907</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Dorado** (the Municipality) was established in 1848. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

A. Financial reporting entity:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

B. Basis of presentation:

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

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General - is the general operating fund of the Municipality. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary fund types:

The Enterprise Fund, which was established in June 1996, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The enterprise fund of the Municipality includes land and buildings known as "Commercial Pavilion Rafael Hernández Colón located in 349 Méndez Vigo Street at Dorado, Puerto Rico. The main source of income comes from rent received from spaces rented with formal contracts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

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

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned and their expenses are recognized when they are incurred. Most of the fund transactions are made through the Government Development Bank.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

E. Budgetary data (continued):

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

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same as the Municipality's fiscal year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. Inventories:

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

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent:

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

Enterprise Fund: Additional cash with a fiscal agent is shown in the Enterprise Fund which is held by the Government Development Bank and its use is limited for the expenditures associated with "Commercial Pavilion of Dorado Rafael Hernández Colón."

Capital Projects Fund: Funds restricted and held by Governmental Development Bank for the future disbursements of capital projects. This account includes deposits from loans proceeds for capital projects.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

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

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

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

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

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

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

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Retirement System Administration	\$ 66,286
Puerto Rico Telephone Company	92,960
Puerto Rico Aqueduct and Sewer Authority	7,600
General Services Administration	1,159
Internal Revenue Service	56,234
	<hr/>
	\$ 224,239

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

Department of Labor	\$ 257,323
Municipal Revenue Collection Center	267,205
	<hr/>
	\$ 524,528

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.33% for real property and 6.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the preliminary liquidation noting that the collections were in excess of advances by \$1,629,615. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.40%

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

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 2,258,118
Certificates of deposit (90 days or less)	<u>4,421,117</u>
Total cash and cash equivalents,	<u>\$ 6,679,235</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

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

	Balance July 1, 2000	Adjustments to Beginning Balance	Adjusted Beginning Balance	Additions	Retirements	Balance June 30, 2001
Vehicles & Equipment	\$ 6,008,814		\$ 6,008,814	\$371,098	\$(253,855)	\$ 6,126,057
Real Estate Property	<u>10,046,126</u>	\$ (183,530)	<u>9,862,596</u>	<u>48,847</u>	-	<u>9,911,443</u>
Total	<u>\$16,054,940</u>	<u>\$(183,530)</u>	<u>\$15,871,410</u>	<u>\$419,945</u>	<u>\$(253,855)</u>	<u>\$16,037,500</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2000	\$ 8,035,000
Debt issued	1,875,000
Principal retirements	(670,000)
Adjustments / Reclassifications	3,490,000
 Balance at June 30, 2001	 \$ 12,730,000

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1992 Series	7-1-07	\$ 1,860,000	5.00% to 7.50%	\$ 1,180,000
1993 Series	7-1-08	150,000	5.87% to 7.60%	45,000
1995 Series	7-1-07	765,000	5.00% to 7.50%	475,000
1996 Series	7-1-14	2,750,000	6.87% to 8.00%	2,395,000
1997 Series	7-1-09	2,650,000	6.75% to 8.00%	2,090,000
1997 Series	7-1-16	290,000	6.63% to 8.00%	255,000
1997 Series	7-1-16	110,000	6.63% to 8.00%	90,000
1998 Series	7-1-13	3,675,000	6.00% to 7.50%	3,385,000
1998 Series	7-1-21	1,065,000	6.71% to 8.00%	940,000
2000 Series	7-1-13	65,000	5.88% to 8.00%	65,000
2000 Series	7-1-25	310,000	5.88% to 8.00%	310,000
2000 Series	7-1-20	1,500,000	5.88% to 8.00%	1,500,000
 Total general obligation bonds				 \$12,730,000

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

Year ended June 30	Total
2002	\$ 720,000
2003	770,000
2004	840,000
2005	890,000
2006	970,000
Thereafter	8,540,000
 Total	 \$12,730,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS (CONTINUED):

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

10. NOTES AND LEASE OBLIGATIONS PAYABLE:

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

Balance at July 1, 2000	\$ 6,924,438
Debt issued	465,000
Payments during the current year	(1,055,771)
Adjustments / Reclassifications	(3,334,979)
Balance at June 30, 2001	<u>\$ 2,998,688</u>

Notes payable at June 30, 2001 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1976 Series	1-1-06	\$ 810,000	9.00%	\$ 405,000
1985 Series	1-1-04	15,000	10.00%	2,438
1987 Series	7-1-06	500,000	8.00%	131,250
1987 Series	7-1-06	1,545,000	9.00%	755,000
1997 Series	7-1-01	340,000	8.00%	80,000
1998 Series	7-1-02	460,000	6.69% to 8.00%	205,000
1998 Series	7-1-02	125,000	6.71% to 8.00%	55,000
1998 Series	7-1-03	470,000	6.31% to 7.50%	305,000
Section 108 Loan	8-1-01	4,105,000	6.84% to 8.22%	595,000
2000 Series	7-1-05	230,000	5.88% to 8.00%	230,000
2001 Series	7-1-05	235,000	6.13% to 8.00%	235,000
Total notes payable				<u>\$2,998,688</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES AND LEASE OBLIGATIONS PAYABLE (CONTINUED):

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

Year ended June 30	Total
2002	\$ 1,155,750
2003	515,750
2004	410,750
2005	325,188
2006	350,000
Thereafter	241,250
Total	\$2,998,688

During the fiscal year June 30, 1999 the Municipality acquired a computer equipment under a capital lease. The capital lease to IBM Credit Corp. is payable in monthly installments of \$4,546 which includes interests at 7.48% through June 30, 2004.

The capital lease transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 174,480
Debt issued	-
Payments during the current year	42,960
Balance at June 30, 2001	\$ 131,520

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

Year ended June 30	Total
2002	\$ 46,284
2003	49,866
2004	35,370
Total	\$ 131,520

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. REVENUE BONDS-ENTERPRISE FUNDS:

In 1994, the Municipality issued \$2,090,000 revenue bonds, in which the Municipality pledges rent income from the enterprise fund (completed construction by July 1996 of the Commercial Pavilion "Rafael Hernández Colón") to pay such debt. On January 18, 2000 the Municipality formalize a revenue bond payable with Banco Santander Puerto Rico. This loan was used to refinance the outstanding loan with Governmental Development Bank at 9%. The note will be paid by semi-yearly installments of \$103,280, which includes interest at 7.25% for the first ten years. After the first ten years the Municipality can exercise the option to fully repay the outstanding balance of \$943,238 or refinance the debt at an interest rate determined by the lesser of 9.5% or 1% over the London Interbank Offered Rate (L.I.B.O.R. + 1%). The outstanding debt balance as of June 30, 2001 amounts to \$1,790,704. The debt service requirements to maturity including \$1,035,558 of interest are as follows:

Year ended June 30	Total
2002	\$ 206,560
2003	206,560
2004	206,560
2005	206,560
2006	206,560
Thereafter	1,793,462
Total	\$ 2,826,262

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED)

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

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

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

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 359,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

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

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

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

12. RETIREMENT PLAN (CONTINUED):

applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

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

13. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

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

14. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with statement No. 18 of the Governmental Accounting Standards Board, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, the Municipality has performed a study of the activities that need to be implemented at the landfill to comply with applicable state and federal regulations. Based on this study, the Municipality recognized \$ 4,247,145 as the Municipality's estimated total current cost for landfill closure and postclosure care costs. As of June 30, 2001, these estimated closure and postclosure care costs were adjusted to **\$2,113,000** as per the Municipality's consultant updated estimate. Such amount represents the total closure and postclosure costs and, is reported in the General Long-term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

15. AGREEMENT WITH ANDRES REYES BURGOS (“A.R.B. INC”)

The Municipality of Dorado maintained a contract with A.R.B., Inc. for waste disposal. The contract established the terms and conditions, payment method, penalties, among other operating and service commitments. The contract was formalized on November 2, 1998 and effective December of 1998 for \$99,207 monthly. The monthly fee consists of collection and final waste disposition of 13,263 residential, commercial and rural units at \$7.48 per unit for the first two years of the contract and \$8.15 beginning on the third year through the fifth year of the contract. In the year ended June 30, 2001, the waste disposal cost for the Municipality was \$1,272,222 which \$1,190,484 was covered by this contract.

16. OPERATING LEASES:

The Municipality is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Municipality’s account groups.

The following is a schedule by years of future minimum rental payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001:

<u>Year ending</u> <u>June 30,</u>	<u>Amounts</u>
2002	\$ 114,669
2003	114,669
2004	114,669
2005	<u>6,410</u>
Total minimum payments required	<u>\$ 350,417</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

17. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

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

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

18. BEGINNING FUND BALANCES\RETAINED EARNINGS RESTATEMENT:

The beginning Fund Balances for General, Special Revenue, Debt Service, Capital Projects, Agency and Enterprise Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity\ Retained Earnings section of those Governmental and Enterprise Funds, as follows:

Description	General	Special Revenue	Debt Service	Capital Projects	Agency Fund	Enterprise Fund
Beginning Fund Balances\Retained Earnings at July 1, 2000	\$2,216,006	\$1,031,107	\$134,739	\$4,898,912	\$114,159	\$3,089,013
Errors in General Fund beginning cash balance	(392,126)					
Funds reported as Agency Fund instead of General Fund	2,208				(2,208)	
Errors in due to and due from of Special Revenue Fund	279,944					
Accounting errors in deferred revenue beginning balance	270					
Errors in due to Governmental Agencies (PREPA)	200,010					
Funds reported as Special Revenue instead of Capital Projects Fund.		(118,327)		118,327		
Funds reported as Agency Fund instead of Special Revenue Fund		18,316			(18,316)	
Deferred Federal Grants Revenue or accounts receivables reported as fund balance		(813,081)				
Funds reported as Capital Projects Fund instead of Special Revenue Fund		44,363		(44,363)		
Errors in Special Revenue Fund Beginning cash balance		184,333				

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

**18. BEGINNING FUND BALANCES\RETAINED EARNINGS RESTATEMENT
(Continued):**

Description	General	Special Revenue	Debt Service	Capital Projects	Agency Fund	Enterprise Fund
Debts reported in Debt Service Fund instead of General Long-term Debt			\$1,757,656			
Interest payable erroneously established in Debt Service Fund			914,011			
Errors in Capital Projects Fund beginning cash balances				(\$13,930)		
Interest receivable erroneously established in Capital Projects Fund				(20,768)		
Funds reported as Agency Fund instead of Capital Projects Fund				25	(25)	
Funds reported as Agency Fund instead of General Fund					(3,610)	
Fund reported as General Fund instead of Capital Projects Fund				75,369		
Errors in Enterprise Fund cash balance						(402,371)
Beginning Fund Balances\Retained Earnings at July 1, 2000, as restated	\$2,306,312	\$346,711	\$2,806,406	\$5,013,572	-	\$2,686,642

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 102,639
Pass through the Commonwealth of Puerto Rico Governor's Office for Elderly Food Distribution (OGAVE):			
Nutrition Program for the Elderly	10.570	Not Available	<u>66,683</u>
Total U.S. Department of Agriculture			<u>169,322</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program: (Cluster of Programs)			
Section 8 Rental Voucher Program	14.855		1,374,633
Section 8 Rental Certificate Program	14.857		<u>76,012</u>
Total Cluster of Programs			<u>1,450,645</u>
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	Not Available	747,015
Pass-trough the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	33,033

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs: Community Development Block Grants/Section 108 Loan Guarantees	14.248	Not Available	<u>86,599</u>
Total U.S. Department of Housing and Urban Development			<u>2,317,292</u>
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnerships and Community Policing Grants ((COPS).	16.710		224,875
Pass-through the Commonwealth of Puerto Rico Department of Justice: Local Law Enforcement Block Grants Programs	16.592	Not Available	<u>101,112</u>
Total U.S. Department of Justice			<u>325,987</u>
U.S DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico Department of Transportation and Public Works, Puerto Rico Highway and Transportation Authority (UMTA): Highway Planning and Construction	20.205	Not Available	<u>11,682</u>
Total U.S. Department of Transportation			<u>11,682</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging – Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	24,100
Special Programs for Aging – Title III, Part C - Nutrition Services	93.045	Not Available	<u>92,584</u>
Total Cluster of Programs			<u>116,684</u>
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Head Start Program	93.600	02-CH-0483-34 02-CH-0483-35	<u>2,180,620</u>
Total U.S. Department of Health and Human Services			<u>2,297,304</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,121,587</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Dorado** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

<u>Description</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$5,121,587
Non federal programs Expenditures	<u>252,874</u>
Total expenditures in the general purpose financial statements	<u>\$5,374,461</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the general purpose financial statements of the **Municipality of Dorado** as of and for the year ended June 30, 2001, and have issued our report thereon dated February 15, 2002, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Dorado's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Dorado's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-04**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Dorado** in a separate letter dated February 15, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2002

Stamp No.1700932 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

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

Compliance

We have audited the compliance of the **Municipality of Dorado** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Dorado's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Dorado's** management. Our responsibility is to express an opinion on the **Municipality of Dorado's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Dorado's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Dorado's** compliance with those requirements.

In our opinion, the **Municipality of Dorado** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-06, 01-07, 01-11, 01-15, 01-17, and 01-19 through 01-21.**

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Dorado's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-05** through **01-21**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-06**, **01-14**, **01-15**, **01-17**, and **01-19** through **01-21** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Dorado** in a separate letter dated February 15, 2002.



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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 15, 2002

Stamp No.1700933 of the Puerto Rico
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

Material weakness identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal awards

Internal Control over major programs:

Material weakness identified? Yes No

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.855	Section 8 Voucher Program
14.857	Section 8 Certificate Program
93.600	Head Start Program

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

Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference 01-01

Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal Funds) and Account Groups.
Criteria	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality is in the process of implementing procedures in order to actualize the accounting records in order to provide a formal general ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-02
Requirement	Payroll and Related Liabilities – Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files. The following will summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. The accrued vacations report prepared by the Human Resources Department used to establish the accrued obligation in the Financial Statement as of June 30, 2001 did not include the accumulative vacation and sick balance of seven (7) employees. In addition, for four (4) employees the amount detailed in the report did not match with the accumulative vacation card.b. The Municipality did not discount from the accumulative vacation card various days taken by three (3) employees.c. We noted that not exist adequate documentation of salaries discounts realized to the employees related to absences without authorization. The Human Resources Department discounted Saturday and Sunday if the employee was absence on Friday without authorization. There is no regulation approved by the Municipality to realize such deduction.
Criteria	<p>The Revised Regulation on Basic Standard for the Municipalities of P.R. in the Chapter IV Section 18-(1) establish that the Municipality would prepare the payroll based on the employee files.</p>
Cause of Condition	<p>There is no internal control procedure implemented to assure the correctness of accumulative vacation and sickness balances.</p>
Effect of Condition	<p>Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave computation worksheet.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-02 (Continued)**

Recommendation We recommend that the Municipality should review that for all payrolls prepared the Human Resources Department should discount from the accumulative vacation worksheet the vacation and sick days used by employees as detailed in the time assistance card.

Questioned Costs None

Management Response The Municipality will prepare an operational manual to establish procedures to actualize employee files. Also, monitoring procedures will be implemented to assure the correctness of the accumulative vacations and sick leave cards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-03**

Requirement **Cash Receipts, Excise Taxes and Municipal License Taxes**

Statement of Condition We performed a cash receipt test and examined a sample of sixty (60) collections. The following will summarize the deficiencies noted:

- a. The Governmental Bank and HUD transferred funds to the Municipality's bank account through a debit memo and the Municipality did not issue treasurer cash receipt after one (1) month and three (3) months respectively.
- b. We found no evidence of permits from "ARPE" to prepare the tax computation on two (2) taxpayers files for excise taxes. In addition, on two (2) files we couldn't recompute how the Municipality determined the excise tax to taxpayers.
- c. The audited financial statements of two (2) taxpayer were not available for examination.
- d. The time extension for the submission of the Municipal License Tax was not available for examination in one (1) taxpayer file.
- e. The deposit slips for the months of September 2000 and February 2001 were not available for examination.
- f. We noted that in five (5) days examined, the amount as per deposit slip did not match with the amounts deposited.
- g. The Municipality prepared two receipts for the same collection in two different days.
- h. In two (2) cases we noted that the Model 9 or Official Treasurer Report was not properly prepared and not duly reconciled.
- i. In one (1) case the amounts as per deposits slips was \$52 less than amount deposited in the bank. We couldn't reconcile the difference.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-03 (Continued)
Criteria	<p>The Section Four (4) of the Chapter three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Treasurer should realize a daily revision of amount collected and amounts debited in bank by governmental agencies to assure that the revenues has been duly accounted and processed in the period of collection.</p> <p>The Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statement in the case of taxpayers with a volume of business in excess of one million (\$1,000,000).</p>
Cause of Condition	No adequate internal control procedures exist to assure that Taxpayer files are properly documented and daily collections are duly accounted for.
Effect of Condition	The Municipality is not complying with regulations stated in the Section Four (4) of the Chapter three (3) and Chapter 9 of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico
Recommendation	<p>Municipality should implement the following procedures in order to avoid these situations in the future:</p> <ol style="list-style-type: none">a. Maintain daily communication with the entities that transfer funds by a debit memo to the municipality in order to assure that the cash receipts have been prepared in the period that funds are transferred to the municipality.b. Establish procedures to assure that excise tax files include evidence of Construction permits obtained from ARPE.c. Assign a person to review taxpayers files who requested a time extension in order to ascertain that the audited financial statements were submitted as required buy law. In case of non-compliance the Municipality should proceed to eliminate the 5% discount and apply the interest and penalties.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-03 (Continued)**

- d. Establish procedures to assure that daily collections are duly accounted; revenues are distributed to the correct account and ascertain that a proper tracing between the Official Collector Report and Collectors receipts and deposit slips.

Questioned Costs None

Management Response The Municipality gave instructions to the Collector Office to establish adequate internal control procedures to avoid these situations in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-04
Requirement	Expenditures for Goods and Services and Accounts Payables- Purchasing and Receiving
Statement of Condition	<p>We performed a General Fund cash disbursement test and examined 47 disbursement vouchers. The following will summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. The purchase order and the invoice of one (1) disbursement voucher were not available for examination.b. Two (2) disbursement vouchers were not available for examination.c. Three (3) quotations were not available for examination in two (2) disbursement vouchers.d. We noted that printing expenses incurred during the year exceed \$10,000 and no formal bid procedures was performed by the Municipality.
Criteria	<p>The Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establish in the Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.</p>
Effect of Condition	<p>The Municipality is in not compliance with the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-04 (Continued)**

Recommendation We recommend that the Municipality should improve its internal control and procedures in order to assure that disbursement vouchers contain all supporting documents before issuing payments. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations are requested for purchases of goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed the limits.

Questioned Costs None

Management Response The Municipality will improve internal control procedures to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-05
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Allowable Cost- Cost Principles
Statement of Condition	<p>During our disbursement test of Head Start Program, we noted the following deficiencies:</p> <ul style="list-style-type: none">a) Two (2) disbursement vouchers related to payroll transfers to the payroll bank account were not available for examination.b) Six (6) disbursement vouchers related to Social Security payment did not include a detail of employees Social Security calculation.c) One (1) disbursement vouchers related to Bonus paid did not include a detail of employee’s bonus calculation.d) One (1) disbursement vouchers related to medical plan payment did not agree with the detail included in the voucher.e) Three (3) cancelled checks related to Income Tax Payments were not available for examination. We noted that those checks were dated on year 2000 and were outstanding at audit date.
Criteria	<p>Code of Federal Regulations 45, Subpart C, 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, contracts and sub grant award documents and others.</p>
Cause of Condition	<p>The Program did not maintain adequate controls to assure that all disbursements made have all supporting documents.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-05 (Continued)
Effect of Condition	The program is not in compliance with CFR, Subpart C, 45 CFR 92.20 (b) (6).
Recommendation	We recommend to the Municipality to establish adequate internal control procedures to assure that disbursement vouchers includes all documentation required by law.
Questioned Costs	None
Management Response	The Municipality will establish procedures to assure that disbursement vouchers related to payroll are adequately documented.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-06
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Cash Management
Statement of Condition	<p>We realized Cash Management Test and after our procedures we found the following exceptions:</p> <p>a) No proper procedure is maintained by the program to administrate and comply with cash management requirement. The program did not maintain adequate audit trail to reconcile the funds received from the Federal Agency with the disbursements of checks. The program maintained an average monthly cash balance \$103,061. The following situations do not permit the program to maintain proper procedures to manage the cash:</p> <ul style="list-style-type: none">- Cash balance as per Cash Register do not match with the General Ledger.- Bank reconciliation of October, 2000 was prepared incorrectly.- The outstanding checklist includes checks issued for more than one year for the approximate amount of \$70,000 and the program performed no investigation of that situation.- The program did not reconcile their cash balance per General Ledger with the accounting system maintained by the Municipality.
Criteria	<p>OMB Common Rule, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursements made by the grantee.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-06 (Continued)
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	Municipality is not in compliance with OMB Common Rule, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation. Also, procedures should be implemented to assure the correctness of cash balance as per bank reconciliation and accounting records.
Questioned Costs	None
Management Response	The Program is in the process of correction of the bank reconciliation's. In addition, the Municipality will perform monitoring procedures of the outstanding checklist in order to investigate those checks outstanding for more than ninety days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-07
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees; contractor's and subcontractor's laborers interviews were not made periodically, and contractor weekly payrolls were not requested promptly during activity of construction project in order to be reviewed by the Municipal Employee responsible of applying monitoring procedures.
Criteria	Davis-Bacon Act, as amended (40 USC 276A-276A-7).
Cause of Condition	Municipality did not apply adequately the monitoring system developed to test contractors' compliance with respect to payment of prevailing wages.
Effect of Condition	Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-7).
Recommendation	We recommend management to follow monitoring system procedures developed by it, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
Questioned Costs	None
Management Response	Municipality will establish procedures to assure the compliance with this requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-08**

Program **Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families**

Requirement **Equipment and Real Property Management**

Statement of Condition We realized the Equipment and Real Property Management test and after our procedures we found the following exceptions:

- a) The Property Subsidiary Ledger does not detail the supplier name and address of the supplier who sold the equipment.
- b) The program did not maintain supporting evidence that realized a periodic physical inventory.
- c) The program did not maintain a subsidiary ledger to account for building improvement performed to the municipal property.
- d) The program acquired telephone equipment with a cost of \$6,840 that was not included in the property ledger.

Criteria Subpart C, 45 CFR 92.32 (d) (1), states that property records must be maintained to include a description of the property, serial number or other identification number, the source of the property, percentage of Federally participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal, sale price of the property. Also, a physical inventory must be taken at least once and the result reconciled with the property records at least one every two years, respectively. 45 CFR 92.31 stated a similar regulation for the preparation of the Real Property Subsidiary.

Cause of Condition There are no adequate internal controls to assure that the property register includes all the property acquired by the program.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-08 (Continued)
Effect of Condition	Municipality is not in compliance with 45 CFR, 92.32 (d) (1) and 92.31.
Recommendation	We recommend management to perform a physical inventory at least once every two years in order to actualize the property subsidiary ledger.
Questioned Costs	None
Management Response	The Municipality will perform a physical inventory as recommended. The telephone equipment was not included in the property ledger since that expenditure was recognized as other expenses as per ADFAN instructions. Also, the property improvements realized will be recorded in the property subsidiary ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-09
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Matching, Level of Effort, Earmarking
Statement of Condition	We noted that the In Kind Contribution documentation does not have an adequate audit trail for professional services, other expenses, municipal employees salaries and rent accounts. We found differences between the certification prepared by the program and the general ledger.
Criteria	45 CFR, Section 1301.20 and 1301.21 states that grantees are required to contribute at least 20 percent of the cost of the program through cash or in kind contribution. In addition, the Section 92.20 (b) (1) and (2) states that grantees and subgrantees must maintain accurate, current, and complete records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income, etc.
Cause of Condition	The Municipality did not establish adequate internal control procedures to assure that In Kind files are adequately documented and accounted for.
Effect of Condition	Inadequate documentation procedures could result in a noncompliance with 45 CFR, Section 1301.20 and 1301.21.
Recommendation	We recommend to the program to assure that in kind files are adequately documented. Also, such evidence should reconcile with amounts posted in the general ledger.
Questioned Costs	None
Management Response	The program will assure that files include documentation with adequate audit trail to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-10
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Matching, Level of Effort, Earmarking
Statement of Condition	<p>In our Participants Files Test whose sample is constituted by the 90 percent of low income participants and which is realized to support our Earmarking Test (90/10) we found the following exceptions:</p> <ol style="list-style-type: none">1) The program has not established a procedures manual to establish the official documentation to be requested to the participants.2) The program did not request participants family members evidence of Social Security Copy and Birth Certificate to assure participant family composition.3) The Social Security number of one (1) participant was not available for examination.4) Various participant parents who represented that they were unemployed did not submit evidence from the Department of Family or the Department of Labor to assure about the correctness of the information.
Criteria	<p>45 CFR, Section 1305.4, establishes that at least 90 percent of the enrollees must come from families whose income is below the Official Federal Poverty Guidelines or who are receiving public assistance.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-10 (Continued)
Cause of Condition	The Municipality did not apply the necessary internal controls procedures to assure the compliance with this federal requirement.
Effect of Condition	If this fault persist the Municipality could have noncompliance with this requirement.
Recommendation	We recommend that the Municipality should review their procedures for enrollment of the participants according their income levels and develop policies and procedures to reduce the risk of noncompliance with this requirement.
Questioned Costs	None
Management Response	The program is preparing the internal policies related to eligibility requirements for the program year 2001-2002 in order to avoid these situations in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-11
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Procurement, Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that the contracts examined did not included provisions for granting access to GAO or other federal, agencies to books, documents, etc., provisions for retention of all required records for a three year period, provisions for compliance with executive order 11246 "Equal Opportunity" (applicable to construction contracts in excess of \$10,000) and provisions for compliance with (Copeland "Anti-kickback") contracts for construction and repairs.
Criteria	45 CFR, Subpart C, Section 92.36 (I) (1-13), states that sub grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	Federal Program Department did not maintain appropriate procurement standard procedures in order to assure that contractor complies with all requirements.
Effect of Condition	Municipality is not in compliance with 45 CFR, Subpart C, Section 92.36 (I) (1-13).
Recommendation	We recommend management to update contract model according with the federal requirement.
Questioned Costs	None
Management Response	The Municipality will include the applicable clauses to the contracts in the future contracts.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-12
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Procurement, Suspension and Debarment
Statement of Condition	During our bid and quotation test we noted the following exceptions: <ul style="list-style-type: none">a. The Municipality contracted one University to offer continued education to the program staffs for \$6,300. We found no evidence of three quotations. The Municipality submitted to us a detail of the Universities that they called for quotations during the month of September 1999 and the service was provided on November 2000. In addition, a written certification was not provided certifying that there is no municipal employee, governmental agency or entity dedicated to offer such courses at low cost.b. The Municipality obtained only one quotation for the acquisition of Telephone equipment with a cost of \$7,290. The contract between the Municipality and the contractor which state that the quotation process is realize by the contractor was not available for examination.
Criteria	45 CFR, Subpart C, Section 92.36 (a) states that when procuring property and services under a grant a local government will follow the same policies and procedures it uses for procurements from its non-federal funds. Also, the Section (C) (1) states that all procurement transactions would be conducted in a manner of providing full or open competition consistent with Standards.
Cause of Condition	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contractor complies with all requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-12 (Continued)
Effect of Condition	Municipality is not in compliance with 45 CFR, Subpart C, Section 92.36 (a) and Section (C) (1).
Recommendation	We recommend management to improve internal control procedures related to procurement requirements.
Questioned Costs	None
Management Response	<p>Related to the program staff continued education, the program obtained information from four Universities by telephone and only one University offered the required service.</p> <p>Related to the telephone equipment acquired, the Municipality entered in a contract with a telephone company that stated that the contractor would assign their contractors to realize the necessary jobs.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-13
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Reporting
Statement of Condition	We found differences between the Liquidation of Funds Report Submitted to ADFAN and the general ledger in the professional services, materials and Travel expenditure accounts.
Criteria	The contract between ADFAN (pass-through entity) and the Municipality states that the final year reports should be submitted within the first twenty days after the ending of the program year. The 45 CFR, Subpart C Section 92.20 states that financial reporting, accurate, current and complete disclosures of the financial results of financially assisted activities must be made in accordance with the financial requirements of the grant or subgrant.
Cause of Condition	No adequate internal control exists to assure the correctness of the reports submitted to ADFAN.
Effect of Condition	The Municipality did not report to ADFAN accurate information as required by 45 CFR, Subpart C, Section 92.20.
Recommendation	We recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports.
Questioned Costs	None
Management Response	The Program corrected differences in the accounting records.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-14
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Reporting
Statement of Condition	<p>We noted that no adequate control exist to account due to and due from other funds. We noted the following exceptions:</p> <ul style="list-style-type: none">- The transfer of funds were realized by a debit memo in the bank account of the program and the Municipality did not prepared a disbursement voucher and a cash receipt to account the transactions.- We noted that \$21,052 was deposited in the program bank account pertaining to Child Care Food Program. The federal program or the Municipality did not identify the error.
Criteria	<p>45 Code of Federal Regulations, Subpart C, 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, contracts and sub grant award documents and others. Also the Section 92.20 states that financial reporting, accurate, current and complete disclosures of the financial results of the financially assisted activities must be made in accordance with the financial requirements of the grant or sub grant.</p>
Cause of Condition	<p>No adequate internal control exists to assure the correctness of interfund transactions and requisition of funds to ADFAN.</p>
Effect of Condition	<p>The Municipality did not maintain adequate accounting records.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference **01-14 (Continued)**

Recommendation We recommend that the Municipality should establish monitoring procedures to assure that a proper tracing exist for interfund transactions. In addition, we recommend the preparation a worksheet allocating the requisition of funds with the amounts received from ADFAN in order to assure that funds received are deposited in the correct bank account.

Questioned Costs None

Management Response The Program will establish procedures to avoid these situations in the future. In addition the program requested the Municipality to realize the necessary adjustments to transfer funds to the correct bank account.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-15
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State - Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Period of Availability of Funds
Statement of Condition	<p>During our test we noted the following exceptions related to period of availability of funds:</p> <ul style="list-style-type: none">a) Mathematical errors in the report of obligations or accounts payables as of 2/28/01.b) For local accounts payables as of 2/28/01 a total of \$1,857 were not paid at audit datec) Obligations incurred by \$7,742 were liquidated ninety days after the end of the funding period.d) For federal account payables a total of \$8,856 were not paid at audit date.e) During our tests we noted that the program physically maintained the checks for more than ninety days after there were issued. As result a total of \$40,451 were paid after the period of availability of funds.
Criteria	<p>The grant agreement stated in clause number ten (10), point number eleven (11) that the Federal regulation states a term of ninety days for the liquidation of obligations pending to be paid at the year closing. After that date the program is not authorized to perform additional payments with federal funds and the Municipality will be responsible to liquidate the obligations with local funds except if a a waiver is obtained from ADFAN.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding Reference	01-15 (Continued)
Cause of Condition	The Municipality did not establish adequate monitoring procedures to assure that obligations are liquidated as required by grant agreement.
Effect of Condition	The Municipality is not in compliance with the Grant Agreement and 45 CFR, Subpart C, Section 92.23 (b).
Recommendation	We recommend the Municipality to reimburse to ADFAN the federal funds used to paid obligations in excess of ninety days and establish adequate internal controls to avoid this situation occurred in the future.
Questioned Costs	None
Management Response	The Municipality will perform monitoring activities to avoid this situation occurred in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-16**

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

Requirement **Allowable Costs – Cost Principles**

Statement of Condition During our verification of forty four (44) participant files we noted that in two (2) cases the Municipality did not paid the Housing Assistance Payment as per Family Report, form HUD-50058 calculation.

Criteria Code of Federal Regulations 24, Sections 5.617 and 982.516 requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and housing assistance payment as necessary.

Cause of Condition The Federal Program Department did not verify if the HAP payments are in accordance with the HUD 50058 Form, Family Report.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.617 and 982.516.

Recommendation We recommend realizing monitoring procedures to assure that HAP payments are realized based on Family Report Computation.

Questioned Costs None

Management Response The Municipality performed the required adjustment in HAP payments and will establish procedures to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-17
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the program maintained an excessive average adjusted cash balance in books of \$ 453,763.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20 (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
Questioned Costs	None
Management Response	The Municipality will establish procedures to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-18**

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

Requirement **Eligibility Test**

Statement of Condition We performed an eligibility test and examined a sample of forty (40) participant files. The following will summarize the deficiencies noted:

- a. We found no evidence of time extension to contracts in three (3) participant files.
- b. In two (2) cases the members of the family with 18 years or more did not sign the privacy act notice included in the participant's file.
- c. In one (1) cases there was no adequate evidence of family income.
- d. In two (2) cases the Social Security Copy was not available for examination.
- e. In one (1) case the participant included a new family member and there were no evidence of actualized photo, birth certificate and Social Security copy.

Criteria Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sing an application form, one or more releases forms, a Federally prescribed general release form for employment information and a privacy act notice.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-18 (Continued)**

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

Recommendation We recommend the Program to establish the following procedures:

- a. Provide an application form to be filled by the participant and sign by all family members who are at least 18 years old.
- b. Provide a Federally prescribed general release form for employment information and a privacy act notice to be sign by all members of the family who are at least 18 years old.
- c. Implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.

Questioned Costs None

Management Response The Municipality established an adequate procedure to avoid these situations in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-19
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections
Statement of Condition	During our verification of forty (44) participant files we noted the following deficiencies: <ul style="list-style-type: none">a. In one (1) cases we found no evidence of the last inspection of the contract and the initial inspection of a new contract signed with a new unit owner.b. We found no evidence of a quality control re-inspection in the tenant files.
Criteria	Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.
Cause of Condition	Management does not have adequate internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented in participant files.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b).

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-19 (Continued)
Recommendation	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented.
Questioned Costs	None
Management Response	The Municipality established procedures to assure that files inspection and re-inspections are included in the participant files.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-20
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test - Special Test and Provisions
Statement of Condition	During our waiting list test we noted that in five (5) cases we could not determine if the participants were selected from the top of the waiting list.
Criteria	Code of Federal Regulations 24, sections 5.410, 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The program does not maintain adequate internal control procedures to assure that participants are selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 5.410, 982.54 (d) and 982.201 through 982.207.
Recommendation	The program should realize the procedures established in the action plan in order to actualize the waiting list and maintain a proper tracing of the participant's selection, in order to assure the selection from the top of the waiting list.
Questioned Costs	None
Management Response	The Municipality is actualizing the waiting list in order to avoid this situation in the future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-21
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Performance Reporting
Statement of Condition	The Municipality did not submit with the SEMAP certification the Addendum for Reporting Data for Deconcentration Bonus Indicator. In addition, we noted that the program answer a (yes) in the items 1 (b) and item 5 and we noted that the program did not comply with those requirements as per our test results and did not maintain evidence to support the answers of items 7(c), (d), (e) and (f) of the SEMAP Report.
Criteria.	Code of Federal Regulations 24, Section 985.3 stated that HUD 52648, SEMAP certification and the Addendum for Reporting Data for Deconcentration Bonus Indicator for PHAs with jurisdictions in metropolitan FMR areas should be submitted to HUD who will realize on site visits and verify the independent auditors annual audit reports to assure the compliance with this requirement.
Cause of Condition	The program does not maintain adequate controls to provide sufficient evidence to support the compliance with the answers detailed in the SEMAP Report submitted to HUD.
Effect of Condition	The Municipality is in not compliance with Code of Federal Regulations 24, Section 985.3.
Recommendation	We recommend to the Municipality to establish adequate internal control assuring that the program must comply with federal regulations and maintain proper records to support SEMAP Report answers.
Questioned Costs	None
Management Response	The Municipality has establishes procedures to assure the compliance with this requirement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF DORADO**

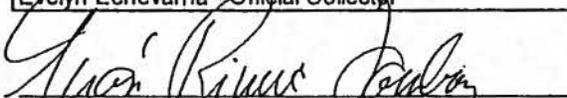
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-2	93.600	<p><u>Lack of proper documentation on participants files</u></p> <p>Partial corrective action has been taken. The Municipality is preparing internal policies to comply with this requirement.</p>
98-2	14.855 14.857	<p><u>Lack of proper documentation in participant files.</u></p> <p>Audit findings are no longer valid since to has passed more than two years that the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegates the funds to the Municipality is not giving follow up to the findings and has not issue a final decision respect to the finding.</p>
97-2	All Programs	<p><u>Deficiencies in accounting records for federal programs.</u></p> <p>Audit findings are no longer valid since has passed more than two years that the reports were submitted to the Single Audit Clearinghouse. The Federal Agency who delegates the funds to the Municipality is not giving follow up to the findings and has not issue a final decision respect to the finding.</p>

Municipality of Dorado
 Corrective Action Plan
 "Cash Receipt Test" "Single Audit" 2001

Contact Person Responsible for Corrective Action	Corrective Action Planned	Anticipated Completion Date
Finding Reference Number 1 Evelyn Echevarria - Official Collector	The department will procede to adjust and actualize receipts that are pending to be accounted.	02/28/2002
Finding Reference Number 2 y 6 Evelyn Echevarria - Official Collector	Instructions were Imported to have a major control with the custody of the documents and where they are to be used in other department we will have a control of who has the documents.	02/28/2002
Finding Reference Number 3 Evelyn Echevarria - Official Collector	The department will proceede to adjust and actualize receipts that are pending to be accounted.	02/28/2002
Finding Reference Number 4 Melvin Navedo - Account	There will be a follow up so that when Crim notifies CAE will give the receipts.	Since march, 2002 until present.
Finding Reference Number 5 Sandra Morales - Federal Program Assistance Sara Villanueva - Account	This programs are consolidated in one. As soon as the transference is notify by the bank the receipt has to be prepared.	Since march, 2002 until present.
Finding Reference Number 7	Does not apply.	N/A
Finding Reference Number 8 Evelyn Echevarria - Official Collector	Instructions were given about the necessity of writing void on the receipts and explaing the reasons.	02/28/2002
Finding Reference Number 9 Evelyn Echevarria - Official Collector	Instructions were given about making more acceverate statements explaining all of the receipts and indicating the book accounts numbers.	02/28/2002
Finding Reference Number 10, 11 y 12 Evelyn Echevarria - Official Collector	Instructions were imparted to the collectors so that arithmetic calculations will be verified with the balance of the sheets and deposits.	02/28/2002
Finding Reference Number 13 Evelyn Echevarria - Official Collector	Instructions were imparted to assure that all of the statements are sined.	02/28/2002


 Iván Rivera Lamboy - Finance Director

**GOBIERNO MUNICIPAL
 DORADO, PUERTO RICO
 RECIBIDO**

FECHA: 10/09/02
 HORA: 8:30 a.m.
 FIRMA: [Signature]

Municipality of Dorado
Single Audit 2000-2001
Corrective Action Plan
Section III- Federal Award Finding and Questioned Costs

Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
Finding Reference 01-05	Mr. Ivan Rivera Lamboy (Finance Director)	<p>Filling System</p> <p>The Municipality Mayor gave instructions to the municipal employees assigned to the Department of Finance to assure that the disbursements related to payroll are supported by such source documentation as cancelled checks, paid bills, time and attendance sheet records, contracts and sub grant award documents and others.</p>	4/30/02
Finding Reference 01-06	Teresa Acevedo Sierra (Head Start Accountant)	<p>Cash Management</p> <p>The Head Start program Director gave instructions to the accountant to correct bank reconciliation's and to perform monitoring procedures of the outstanding checklist in order to investigate those checks outstanding for more than ninety days. In addition to maintain adequate controls to assure that funds requested to the federal agency are disbursed for immediate needs and to assure that cash balance as per cash register agree with the general ledger, bank reconciliation's and with the accounting system maintained by the Municipality.</p>	8/31/02
Finding Reference 01-07	Miguel Mestre (Head Start Accountant)	<p>Davis Bacon Act</p> <p>The Head Start program Director gave instructions and the required documents as (prevailing wages tables, interviews forms etc.) to the accountant to establish adequate monitoring procedures to assure contractors compliance with payment of prevailing wages rates to employees. The accountant will obtain contractor and subcontractor's weekly payrolls to be reviewed weekly and interviewing laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extent of violations, if any.</p>	10/31/2002

Municipality of Dorado
Single Audit 2000-2001
Corrective Action Plan
Section III- Federal Award Finding and Questioned Costs

Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
Finding Reference 01-08	Miguel Rijos (Property and Equipment employee)	Equipment and Real Property Management The Head Start program Director gave instruction to the employee in charge of the Property and Equipment to perform and document a physical inventory at least once and the results reconciled with the property records at least once every two years. In addition, the program will prepare and maintain a subsidiary ledger to account for building improvements performed to the municipal property with the program funds. The property subsidiary ledger will be modified in order to include information about the supplier name and address of the supplier who sold the equipment.	6/30/02
Finding Reference 01-09	Teresa Acevedo Sierra (Head Start Accountant)	Matching, Level of effort, Earmarking The Head Start program Director gave instructions to the accountant to assure that In kind Contribution files are properly documented reconciling the in kind evidence with the certifications prepared by the program and the amounts posted in the general ledger.	6/30/02
Finding Reference 01-10	Ivelisse Rivera (Alianza, Familia y Comunidad Manager)	Matching, Level of effort, Earmarking The Head Start program Director gave instructions to prepare and implement an internal policies manual to establish the official documentations to be requested to the participants. With this manual the program will detail the family member documentation and income documentallon to be requested to the family participants in order to assure that at least 90% of the enrollees must come from families whose income is below the Official Federal Poverty Guldelines.	6/30/02
Finding Reference 01-11	María del C. Díaz (Secretary)	Procurement, Suspension and Debarment The Head Start program Director gave instructions to include the applicable clauses to the contracts as required by Federal Regulations.	6/30/02
Finding Reference 01-12	Ileana Laborde Blondet (Head Start Sub – Director)	The program will establish procedures to assure that all procurement transactions would be conducted in a manner of providing full or open competition consistent with the standards.	

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Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
		<p>Related to procurement process for Continued Education to be offered by a University to the program staff. We will document evidence obtained from three different Universities certifying if they offer the requested Continued Education Courses at the date that the courses will be offered and not one year before. Before this procurement process we will prepare a written certification detailing that there is no municipal employee, governmental agency or entity dedicated to offer such courses at a low cost.</p> <p>Related to procurement process for acquire Telephone equipment. We will document evidence detailing that The Puerto Rico Telephone Company states in the contract with the Municipality of Dorado that the procurement process for acquire equipment is performed by them, and the municipality is not required to realized additional procurement process.</p>	6/30/02
Finding Reference 01-13	Teresa Acevedo Sierra (Head Start Accountant)	<p>Reporting</p> <p>The Head Start program Director gave instructions to the accountant to establish monitoring procedures to assure that the Reports submitted to ADFAN agree with the information detailed in the program general ledger and the cash register.</p>	6/30/02
Finding Reference 01-14	Teresa Acevedo Sierra (Head Start Accountant)	<p>Accounting Records - Reporting</p> <p>The Head Start program Director gave instructions to the accountant to establish adequate monitoring procedures to assure that a proper tracing exist for Interfund transactions between the Municipality and the program.</p> <p>The accountant will prepare a worksheet to allocate the requisitions of funds with the amounts received from ADFAN in order to assure that funds received are deposited in the correct bank account.</p>	11/30/02
Finding Reference 01-15	Teresa Acevedo Sierra (Head Start Accountant)	<p>Period of Availability of Funds</p> <p>The Head Start program Director gave Instructions to the accountant to establish adequate monitoring procedures to assure that obligations are liquidated in a term of 90 days after fiscal year end on February of each year. In the cases that obligations were not liquidated in the time required by grant agreement, a waiver must be obtained in order to comply with federal regulations.</p>	

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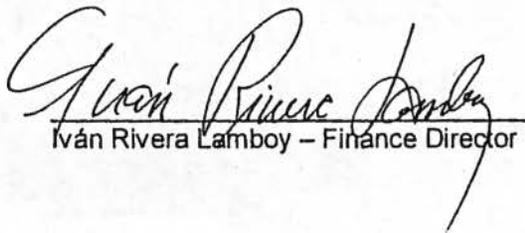
Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
		<p>The accountant will establish procedures to assure that the Report of Obligations or Account Payables is mathematically correct. In addition will investigate any obligation in excess of 90 days detailed in that report in order to assure the compliance with federal regulations.</p> <p>In addition the accountant will maintain a monthly monitoring to the outstanding checklist of the bank reconciliation of the program in order to assure that outstanding checks are cleared by bank not after 90 days.</p>	6/30/02
<p>Finding Reference 01-16</p>	<p style="text-align: center;">Carmen Salgado Maria I. Molina (Occupational Assistant)</p>	<p>Allowable Cost – Cost Principle</p> <p>The Section 8 program Director gave instructions to the program employees to establish adequate monitoring procedures in order to verify that the monthly HAP payments to the residences owners and to the program participants are in accordance with the amount detailed in the Family Report printed by the computer system (50058 Form).</p>	4/30/02
<p>Finding Reference 01-17</p>	<p style="text-align: center;">Sara Villanueva (Section 8 Accountant)</p>	<p>Cash Management</p> <p>The Section 8 program Director gave instructions to the accountant to establish adequate monitoring procedures in order to assure that exist a proper cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the program. The accountant will investigate the situation that cause that the program maintained a cash balance of \$453,763 as of 6/30/01 and after that will proceed to realize the procedures necessary to decrease that average cash balance</p>	8/31/02
<p>Finding Reference 01-18</p>	<p style="text-align: center;">Carmen Salgado Maria I. Molina (Occupational Assistant)</p>	<p>Eligibility</p> <p>The Section 8 program Director gave instructions to the Occupational Assistant to establish adequate monitoring procedures in order to assure that participant's files include all required documentation and releases required by the federal agency. As part as the monitoring procedures, the Occupational Techniques will verify that the participant files include actualized contract agreements, Privacy act duly signed by the members of the family with 18 years or more, adequate evidence of family income, Social Security copy, photos, birth certificates, etc.</p>	4/30/02

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Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
Finding Reference 01-19	Sandra Morales (Section 8 Director) Delia Méendez (Inspector)	<p>Housing Quality Standards Inspections</p> <p>The Section 8 program Director gave instructions to the Inspector to establish monitoring procedures to assure that the all the participant files includes initial inspections, annual inspections and last inspections in the cases that the participants finished the contract with a residence owner. This is required to determine if the units meets the Housing Quality Standards.</p> <p>The Section 8 program Director will prepare a detail of quality control re-inspection performed during the fiscal year in order to maintain a relation of all the re-inspection. In addition, the quality control re-inspection will be maintained in the participant files.</p>	4/30/02
Finding Reference 01-20	Marla I. Mollna Lorenzana (Administrative Assistant)	<p>Special Tests and Provisions – Waiting List</p> <p>The Section 8 program Director gave instructions to the Administrative Assistant employee to establish adequate procedures to assure that participants are selected from the top of the waiting list. The Administrative Auxliary will maintain a proper tracing of the participant's selection.</p>	10/31/02
Finding Reference 01-21	Marla I. Mollna Lorenzana (Administrative Assistant)	<p>Performance Reporting</p> <p>The Section 8 program Director gave instructions to the Administrative Auxiliary employee to prepare and maintain proper records to support SEMAP Reports answers. In addition the program Director will establish adequate monitoring procedures to assure that the SEMAP report is submitted on a timely basis, that de Addendum for Reporting Data for Deconcentration Bonus Indicator is duly completed and that the program comply with all of the indicators detailed in the SEMAP Report.</p>	8/30/02

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Finding reference number	Contact person responsible for corrective action	Corrective action planned	Anticipated completion date
Finding Reference 00-2	Ivelisse Rivera (Alianza, Familia y Comunidad Manager)	Lack of proper documentation in participant files The Head Start program Director gave instructions to prepare and implement an internal policies manual to establish the official documentations to be requested to the participants. With this manual the program will detail the family member documentation and income documentation to be requested to the family participants in order to assure that at least 90% of the enrollees must come from families whose income is below the Official Federal Poverty Guidelines	6/30/02


 Iván Rivera Lamboy – Finance Director