

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GUANICA
AUDITORIA 2001-02
30 DE JUNIO DE 2002

OFICINA COMISIONADO
DE CONTABILIDAD Y AUDITORIA
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GENERAL PURPOSE FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS WITH ADDITIONAL
REPORTS REQUIRED UNDER THE
OMB CIRCULAR A-133

MUNICIPALITY OF GUÁNICA

JUNE 30, 2002

Cont #103-9698

Report of Independent Certified Public Accountants

Mayor and Municipal Legislature
Municipality of Guánica
Guánica, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Guánica, Puerto Rico, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the third and fourth paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records we were unable to form an opinion regarding the amount of cash in the general and special revenue fund; due from (to) other funds balance between the general and special revenue funds; and regarding to the amount presented in the general fixed assets account group.

We were unable to obtain a discussion or evaluation from the Municipality's outside legal counsels on certain pending litigation or pending case settlements as described in Note E(2).

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the matters described in the third paragraph been susceptible to satisfactory tests and had we been able to obtain a discussion or evaluation from the outside legal counsels as described in the fourth paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Guánica as of June 30, 2002, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 12, 2003 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Municipality of Guánica taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations" and is not a required part of the general purpose financial statements. Such 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.



Rodriguez, Rivera & Toro LLP

Mayagüez, Puerto Rico
March 12, 2003

Municipality of Guánica

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	
ASSETS AND OTHER DEBITS							
Cash and short term investments (note D1)	\$ 209,467	\$ 1,512,136	\$ -	\$ -	\$ -	\$ -	\$ 1,721,603
Receivables (net where applicable of allowance for uncollectible)							
License tax	42,733	-	-	-	-	-	42,733
Due from governmental entities	10,451	2,953,254	-	-	-	-	2,963,705
Due from other funds (note D2)	406,565	1,027,901	-	-	-	-	1,434,466
Restricted assets							
Cash (note D3)	155,282	62,610	246,176	2,315,419	-	-	2,779,487
Property, plant and equipment (note D4)	-	-	-	-	13,536,328	-	13,536,328
Amount available in debt service fund	-	-	-	-	-	246,176	246,176
Amount to be provided for retirement of general and special obligation bonds and notes	-	-	-	-	-	3,566,824	3,566,824
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	3,201,109	3,201,109
Total assets and other debits	\$ 824,498	\$ 5,555,900	\$ 246,176	\$ 2,315,419	\$ 13,536,328	\$ 7,014,109	\$ 29,492,430

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Guanica

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2002

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	
LIABILITIES							
Vouchers and accounts payable	\$ 872,939	\$ 44,367	\$ -	\$ -	\$ -	\$ -	\$ 917,306
Due to governmental entities (note D5)	428,507	-	-	-	-	-	428,507
Accrued liabilities	30,592	-	-	-	-	-	30,592
Deposits payable	63,308	-	-	-	-	-	63,308
Due to other funds (note D2)	1,027,901	406,565	-	-	-	-	1,434,466
Deferred revenues (note D6)	231,684	2,826,824	-	-	-	-	3,058,508
General and special obligation bonds and notes (note D7)	-	-	-	-	-	3,813,000	3,813,000
Other long-term debts (note D7)	-	-	-	-	-	3,201,109	3,201,109
Total liabilities	2,654,931	3,277,756	-	-	-	7,014,109	12,946,796
Contingencies (note E)							
FUND EQUITY AND OTHER CREDITS							
Investment in general fixed assets	-	-	-	-	13,536,328	-	13,536,328
Fund balance							
Reserved for encumbrances (note A4(b))	-	-	-	-	-	-	-
Reserved for debt service	-	-	246,176	-	-	-	246,176
Unreserved							
Designated for subsequent years expenditures	-	2,278,143	-	2,315,419	-	-	4,593,563
Undesignated	(1,830,433)	-	-	-	-	-	(1,830,433)
Total fund equity and other credits	(1,830,433)	2,278,143	246,176	2,315,419	13,536,328	-	16,545,634
Total liabilities, fund equity and other credits	\$ 824,498	\$ 5,555,900	\$ 246,176	\$ 2,315,419	\$ 13,536,328	\$ 7,014,109	\$ 29,492,430

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Guánica

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUNDS TYPES

Year ended June 30, 2002

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes (note D8)	\$ 835,682	\$ -	\$ 277,240	\$ -	\$ 1,112,923
Municipal license taxes, licenses and permits (note D9)	359,813	-	-	-	359,813
Intergovernmental (note D10)	4,274,207	4,104,334	-	-	8,378,541
Rental income of properties	133,395	-	-	-	133,395
Fines and forfeitures	2,685	-	-	-	2,685
Interest	25,964	1,804	5,145	-	32,914
Sales of land plots	108,405	-	-	-	108,405
Other	24,955	-	-	-	24,955
Total revenues	5,765,107	4,106,138	282,386	-	10,153,630
Expenditures					
General government	2,519,678	572,421	-	12,225	3,104,323
Public safety	457,247	271,039	-	-	728,286
Highway and streets	1,176,086	-	-	-	1,176,086
Sanitation	1,228,528	49,185	-	-	1,277,713
Health	333,198	-	-	-	333,198
Welfare	250,081	359,425	-	-	609,506
Culture and recreation	323,693	6,286	-	-	329,979
Education	3,560	23,865	-	-	27,425
Capital projects	-	2,750,344	-	-	2,750,344
Other	39,189	-	15,880	-	55,069
Debt service					
Principal	-	-	444,971	-	444,971
Interest	-	-	119,047	-	119,047
Total expenditures	6,331,259	4,032,565	579,897	12,225	10,955,946
Excess (deficiency) of revenues over expenditures	(566,153)	73,573	(297,511)	(12,225)	(802,316)
Other financing sources (uses)					
Proceeds from general obligation bonds	-	-	-	2,270,000	2,270,000
Proceeds from debt restructuring (note G)	327,752	-	-	-	327,752
Liabilities expected to be refinanced (note D7)	251,724	-	-	-	251,724
Operating transfers in	161,433	175,510	334,461	-	631,404
Operating transfers out	469,970	-	6,151	155,282	631,404
Total other financing sources (uses)	270,939	135,510	328,310	2,114,718	2,849,476
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(295,214)	209,083	30,798	2,102,493	2,047,160
Fund balance at beginning of year, as restated (note F)	(1,535,220)	2,069,061	215,378	212,926	962,145
Fund balance at end of year	\$ (1,830,433)	\$ 2,278,143	\$ 246,176	\$ 2,315,419	\$ 3,009,305

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Guánica

COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND

Year ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
Revenues						
Property taxes	\$ 766,736	\$ 766,736	\$ -	\$ 187,683	\$ 277,240	\$ 89,557
Municipal license taxes, licenses and permits	483,500	359,813	(123,687)	-	-	-
Intergovernmental	4,362,150	4,320,480	(41,670)	-	-	-
Rental income of properties	125,000	133,395	8,395	-	-	-
Fines and forfeitures	5,000	2,685	(2,315)	-	-	-
Interest	50,000	32,115	(17,885)	-	5,145	5,145
Sales of land plots	150,000	108,405	(41,595)	-	-	-
Other	50,000	24,955	(25,045)	-	-	-
Total revenues	5,992,386	5,748,584	(243,802)	187,683	282,386	94,703
Expenditures						
General government	1,982,141	1,913,320	68,820	-	-	-
Public safety	604,770	592,757	12,014	-	-	-
Highway and streets (note B)	1,121,101	1,187,079	(65,978)	-	-	-
Sanitation (note B)	1,130,619	1,228,528	(97,909)	-	-	-
Health	335,445	333,198	2,247	-	-	-
Welfare	254,658	250,081	4,577	-	-	-
Culture and recreation	334,618	323,693	10,924	-	-	-
Education	5,680	3,560	2,120	-	-	-
Other	130,530	26,783	103,747	-	15,880	(15,880)
Debt service						
Principal	-	-	-	158,478	222,000	(63,522)
Interest	-	-	-	122,030	107,661	14,369
Total expenditures	5,899,561	5,858,999	40,562	280,508	345,541	(65,033)
Excess (deficiency) of revenues over expenditures	92,825	(110,415)	(203,240)	(92,825)	(63,155)	29,670
Other financing sources (uses)						
Operating transfers in	-	-	-	92,825	100,104	7,279
Operating transfers out	92,825	85,996	6,829	-	6,151	(6,151)
Total other financing sources (uses)	(92,825)	(85,996)	6,829	92,825	93,953	1,128
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ (196,411)	\$ (196,411)	\$ -	\$ 30,798	\$ 30,798

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Guánica was founded in March 13, 1914. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of twelve members of the Municipality Legislature. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the general purpose financial statements of the Municipality of Guánica (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for deciding financial accountability are anyone of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. The primary government appoints a voting majority of the potential component unit's governing body and
- c. The primary government can impose its will on the potential component unit and/or
- d. A financial benefit/burden exists between the primary government and the potential component unit.

Based on the above criteria there are no potential component units which should be included as part of the general purpose financial statements.

2. Basis of presentation

The financial transactions of the Municipality are recorded in individual funds and account groups, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities. The various funds and account groups are reported by generic classification within the financial statements.

Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes fund types and account groups that use different basis of accounting and interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by:

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

a. Governmental Funds

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

General Fund. The General Fund is the general operations fund of the Municipality. It is used to account for all financial resources except those required to be accounted in another fund.

Special Revenue Funds. Special Revenue Funds is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

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

b. Account Groups

Accounts Groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debts. The following are the Municipality's accounts groups:

General Fixed Assets Accounts Group. This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Accounts Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

similar assets are capitalized. No depreciation is provided on General Fixed Assets. Equipment is stated at cost, and all land and buildings are recorded at estimated (bid award) values. Donated fixed assets are valued at their estimated fair market value on donation date.

General Long-Term Debt Account Group. This group of accounts is established to account for all long-term debts of the Municipality. Because of their spending measurement focus, expenditures recognition for governmental fund types is limited to exclude amounts represented by non current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Accounts Group.

3. Basis of accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt.

Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred. Exceptions to this rule are: (1) accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt in the debt service funds, which are recorded as expenditures when due, except for principal and interest due in July 1 of the following fiscal year, which is recorded when resources are available in the debt service funds.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Municipality reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received before the Municipality has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

The Municipality follows the accounting and reporting standards for nonexchange transactions as established by GASB 33. In a nonexchange transaction (most taxes, grants and subsidies), a government gives or receive value without directly receiving or giving equal value in return. As opposed, in an exchange transaction (most charges for services) each party receives and gives essentially equal values. GASB 33 Statement do not significantly alter the basis of accounting used by the Municipality for the recognition of revenues, expenditures and related assets and liabilities, except for the recognition of taxes receivable and a corresponding deferred revenue for amounts earned by taxpayers before June 30, estimated to be collectible but not currently available.

4. Budgetary data

a. Budget policy

Budgets are prepared for General and Debts Service Funds following the requirements of the Municipal Law of 1981 as amended. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include: terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums. Budget amendments, which require a change in total appropriations of any department, are approved by the Municipality Legislature. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislative Branch. The budgets are prepared on a budgetary (statutory) basis of accounting which is different from GAAP and reflect encumbrance accounting as described below. In instances where budget revenues appropriations have been revised during the year, budget amounts

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

presented in the financial statements and schedules represent final revenues and authorization amounts. Encumbrance appropriates lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. Formal budgetary information is employed as a management control device during the year for the General and Debts Service Funds. Formal budgetary integration is not employed for Special Revenues and Capital Projects Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. Encumbrances

On a GAAP basis, encumbrances outstanding at year end are reported in the general purpose financial statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary (statutory) basis, encumbrances are recorded as expenditures of current year.

5. Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

6. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure in the appropriate fund but the year-end inventory is not recorded in the combined balance sheet.

7. Insurance coverage

The Puerto Rico Department of Treasury acts as an agent, obtaining and determining the coverage for the cities and municipalities of Puerto Rico. The coverage for the Municipality of Guánica consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payment of the Municipality's insurance premiums are withheld quarterly from property tax advances and subsidies sent to the Municipality by the Municipal Revenue Collection Center.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Compensated absences*

The Municipality's employees accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period.

Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance sheet date. The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-Term Debts Account Group since it is anticipated that none of the liability already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid, are recorded as expenditures in the General Fund.

9. *Interfund transactions*

Operating transfers are reported when incurred as operating transfers in by the recipient fund and as operating transfers out by the disbursing fund.

10. *Use of estimates*

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. *Fund balance*

a. *Reservation of fund balance*

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

Encumbrances: Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods when the goods or services are received.

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

b. *Unreserved fund balance designations*

Represent tentative plans or commitments of governmental resources.

12. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

	Statement	To be Adopted in Fiscal year ended,
34	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments	June 30, 2003
37	Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 20 and 34.	June 30, 2003
38	Certain Financial Statement Note Disclosures	June 30, 2003

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

**NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET
STATUTORY BASIS TO GAAP - Continued**

Less: Expenditures accrued under GAAP basis but not budgeted by the Municipality during current period	(128,356)
Revenues recognized under Budgetary-statutory basis but not in GAAP basis	<u>(46,272)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ (295,214)</u>

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. Cash and short term investments

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs has been invested in a 120 days \$1,000,000 certificate of deposit (considered a short term investment). The method of allocating interest earned on pooled cash investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Funds are deposited in commercial banks and fully collateralized by pledged Puerto Rico and U.S. Governmental Securities held by Puerto Rico Treasury Department in the name of the depository bank.

2. Due from (to) other funds

The amount presented as due from (to) other funds represent cash pertaining to other funds pooled in the general fund bank account and advances from the general fund to special revenue funds for expenditures incurred and subject to be reimbursed by Federal and Commonwealth agencies.

3. Restricted assets-cash

Restricted cash balance in the special revenue and capital project fund represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico (GDB) or a federal government instrumentality. Cash balance recorded in the debt service fund represents the undisbursed balance of property tax collections, which are restricted

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law. Interest earned by this sinking fund during the fiscal year 2001-2002 amounted to \$5,145.

4. *Property, plant and equipment*

A summary of the General Fixed Assets Accounts Group transactions follows:

	<u>Equipment</u>	<u>Real Estate</u>	<u>Total</u>
Balance at June 30, 2001	\$ 2,073,863	\$ 11,434,887	\$ 13,508,750
Additions	116,988	-	116,988
Retirements	89,410	-	89,410
Balance at June 30, 2002	<u>\$ 2,101,441</u>	<u>\$ 11,434,887</u>	<u>\$ 13,536,328</u>

5. *Due to governmental entities*

The Municipality's debts with governmental entities as of June 30, 2002 follow:

Municipality of Yauco	\$ 180,574
Puerto Rico Power Authority	133,657
Puerto Rico Department of Labor - Unemployment benefits paid in behalf of the Municipality	81,242
Puerto Rico Aqueduct and Sewer Authority	31,220
Other	1,814
	<u>\$ 428,507</u>

6. *Deferred Revenues*

The amounts presented as deferred revenues in the general fund include the following:

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

Municipal license taxes (note D9)	\$ 221,233
Municipal Revenue Collection Center (note D8)	<u>10,451</u>
	<u>\$ 231,684</u>

7. *Long-term debts*

a. *General and special obligation bonds and notes*

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2002 amounted to \$3,813,000. All these obligations are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long term debt issued to finance operations of the general fund are made through retentions to intergovernmental revenues by the Municipal Revenue Collection Center.

A detail of the general and special obligation bonds and notes as of June 30, 2002 follows:

Original Amount	Description	Maturity	Rate	Outstanding
\$ 290,000	General Obligation Notes	July 1 st , 2004	7.5%	\$ 95,000
217,000	Public Improvement Bonds	January 1 st , 2006	5.0%	50,000
127,000	Public Improvement Bonds	January 1 st , 2006	5.0%	32,000
280,000	Special Obligation Notes	July 1 st , 2006	5.0%	56,000
375,000	Public Improvement Bonds	July 1 st , 2009	5.0%	290,000
135,000	Special Obligation Bonds	July 1 st , 2009	5.0%	105,000
1,125,000	Public Improvement Bonds	July 1 st , 2016	Variable	935,000
1,740,000	Special Obligation Bonds	July 1 st , 2026	5.0%	1,730,000
530,000	General Obligation Bonds	July 1 st , 2026	Variable	<u>520,000</u>
				<u>\$ 3,813,000</u>

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

The annual requirements to amortize all long-term obligations outstanding other than other long-term obligations as of June 30, 2002 follows:

<u>Maturing at June 30</u>	<u>General and Special Obligation Bonds and Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 199,000	\$ 217,227
2004	224,000	219,548
2005	190,000	204,763
2006	200,000	193,043
2007	170,000	180,796
Thereafter	<u>2,830,000</u>	<u>1,625,526</u>
Totals	<u>\$ 3,813,000</u>	<u>\$ 2,640,903</u>

b. Other long-term debts

Other long-term debts are comprised of the following:

Municipal Revenue Collection Center (CRIM) (note D8)	\$ 1,061,453
Puerto Rico Department of Treasury - Property tax and social security	1,040,153
Compensated absences (note A8)	515,093
Puerto Rico Department of Labor (Unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality)	281,693
Municipal Revenue Collection Center (CRIM) - Prior years property tax doubtful accounts expected to be refinanced through long-term debt	251,724
Judgement and claims (note E)	40,000
Puerto Rico Electric Power Authority-payment plan	<u>10,993</u>
	<u>\$ 3,201,109</u>

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

c. Changes in general long-term debts

	Balance at June 30, 2000	Additions	Retirements	Balance at June 30, 2001
General and special obligation bonds and notes	\$ 1,765,000	\$ 2,270,000	\$ 222,000	\$ 3,813,000
Other long-term debts	3,329,854	747,296	876,041	3,201,109
Total	\$ 5,094,854	\$ 3,017,296	\$ 1,098,041	\$ 7,014,109

As of June 30, 2002 the Municipality has entered into an agreement with the Municipal Revenue Collection Center (CRIM) to refinance the prior years property tax doubtful accounts, which amounted to \$251,724 on a long-term basis. It has demonstrated its intentions and its ability to consummate the transaction by an agreement with the CRIM which does not expire within one year from the date of the combined balance sheet, under the provision of Law No. 146 of October 11, 2001. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. The financing agreement was authorized by the Municipal Legislature of Guánica on Resolution No. 33 of April 22, 2002. Accordingly, the amount of \$251,724 will not require the use of available financial resources and has been classified as other long-term debt.

8. Property taxes

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Commonwealth Property Tax Law. The tax levied on property is determined by the Commonwealth and the Municipal Government based on limits established by the Commonwealth Legislature. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year.

Real property is assessed by the CRIM. The tax is general assessed on January 1st on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Property taxes are recorded as revenue by the Municipality in the year of receipt.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

Property taxes are recorded as revenues by the Municipality in the year of receipt. The CRIM advance funds to the Municipality based on an estimate of the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned for the repayment of the bond obligations. As part of the requirements of the Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities. This distribution includes advances of property tax and income derived from other subsidies from the Commonwealth government.

As of June 30, 2001 the Municipality has a net payable to the CRIM of \$1,061,453 which is recorded as other long term debt in the general long term debt accounts group. The Municipality is in process to refinance this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000. See related note G.

For the fiscal year 2001-02 the CRIM performed a liquidation and determined that the Municipality has a net receivable of \$10,451 which is recorded as deferred revenue since it is measurable but not available as required by U.S. generally accepted accounting principles.

9. Municipal license taxes, licenses and permits

Municipal license taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15th. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1st and January 1st following April 15th filing due date), but the discount is not allowed. As required by generally accepted accounting principles, a license tax receivable and a corresponding deferred revenue for the same amount is recognized in the general fund based on taxes earned as of June 30, 2002, estimated to be collectible in year 2002-2003, but not currently available for a total amount of \$42,733. In addition, amounts collected in advance, totaling \$178,500 and pertaining to next fiscal period, are reported as deferred revenue in the general fund. Total deferred revenue for license taxes amounts to \$221,233.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

10. *Intergovernmental revenues*

Intergovernmental revenues in the General Fund are comprised of subsidies received from the Commonwealth of Puerto Rico and amounts received from state agencies as compensation in lieu of tax and in the Special Revenue Fund of federal and state governmental grants.

11. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and non occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program. The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS - Continued

The new program is a defined contribution plan, which consist of a savings account for each system participant. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan.

Under the new program the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

b. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer's and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>2000 Reform</u>
2002	\$ 84,521	\$ 21,768
2001	\$ 94,457	N/A
2000	\$ 102,798	N/A

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE E - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. An audit report dated August 1, 2000 of the Governor's Authorized Representative (GAR) for Federal Emergency Management Agency funds related to Hurricane Georges disclosed questioned costs in the amount of \$745,182. The Municipality appealed the audit results to the GAR. The final outcome of this matter is indeterminable. It is the Municipality's opinion that no other unrecorded liabilities will arise from audits previously performed or to be performed.

2. *Litigation*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage or pending for trial on which the legal counsels have not determined an outcome and other cases will not be covered by insurance.

Of those not covered by insurance, in one case there is a probability of agreement of settlement with the plaintiffs for a total amount of \$40,000. This amount is accrued in the general long term debt account group since it will not be paid with expendable financial resources. In another case not covered by insurance the legal counselors of both parties have reached a preliminary agreement of approximately \$2,000,000. This agreement still needs the acceptance of the plaintiffs, the court and the approval by the municipal legislature. It is also subject to the availability of funds since it will be financed with general long term debt. It is not accrued in the financial statements since there is still not a formal agreement or judgement by court and the funds to be available for the payment of the possible settlement is subject to the municipal capacity to obtain a long term financing with the Governmental Development Bank of Puerto Rico.

In other cases, significant as to dollar amount of claims, the legal counsels have not informed the range of loss, if any, or possible settlement amounts.

Municipality of Guánica

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2002

NOTE F - FUND BALANCE RESTATEMENTS

Fund balance as of July 1, 2001 of the general and special revenue funds has been restated as follows:

	<u>General fund</u>	<u>Special revenue fund</u>
Fund balance at beginning of year, as previously reported	\$ 704,776	\$ 1,238,617
Adjustments to correct transactions recorded in previous years and record uncollectible interfund loans and advances	830,444	830,444
Fund balance at beginning of year, as restated	<u>\$ 1,535,220</u>	<u>\$ 2,069,061</u>

NOTE G - SUBSEQUENT EVENTS

As of June 30, 2002 the Municipality had a net payable to the CRIM of \$1,389,205 for property tax and income derived from other subsidies from the Commonwealth government. Subsequent to June 30, 2002 the Municipal Revenue Collection Center (CRIM) informed the Municipality that, after an audit performed to those prior years liabilities, the correct debt amount totals \$1,061,453 representing a total adjustment of \$327,752. The Municipality refinanced this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated debt for this concept from the Municipalities of Puerto Rico. The refinancing was done through a special loan to be repaid from .48% of the net increase of subsidy provided by the Central Government to the Municipality under the referred law. Under the provisions of Law No. 146 of October 11, 2001 (which amended Law No. 42) the Municipal Legislature, through Resolution No. 46 of March 20, 2003, requested the CRIM to restructure this transaction by increasing loan term from 10 years to 30 years.

SUPPLEMENTAL INFORMATION

Municipality of Guánica

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
<u>U.S. Department of H.U.D.</u>			
Major Program:			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	AF - 25 AB - 25 FD - 25	\$ 1,062,484
Nonmajor program:			
Direct Program:			
Section 8 Housing Choice Vouchers Program	14.871	N/A	<u>197,068</u>
			1,259,552
<u>U.S. Department of Agriculture</u>			
Nonmajor program:			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	3,625
<u>U.S. Department of Health and Human Services</u>			
Nonmajor program:			
Passed through the P.R. Department of Family - Families and Children Administration:			
Child Care and Development Block Grant	93.575	2002-030	131,757
<u>Federal Emergency Management Agency</u>			
Nonmajor program:			
Passed through the Puerto Rico Governor Office: (Governor's Authorized Representative-GAR)			
Public Assistance Grants	83.544	DR-PR-1247	59,111
<u>U.S. Department of Justice</u>			
Nonmajor program:			
Passed through the P.R. Department of Justice:			
Public Safety Partnership and Community Policy Grant (COPS)	16.710	2000SHWX0527 1996UMWX0704	266,178
<u>U.S. Department of Commerce</u>			
Nonmajor Program:			
Direct Program:			
Grant for Public Works and Economic Development	11.300	N/A	<u>18,084</u>
Total federal awards expenditures and questioned costs:			<u>\$ 1,738,307</u>

The accompanying notes are an integral part of this schedule.

Municipality of Guánica

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C - PASS -THROUGH GRANTOR'S NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

Municipality of Guanica

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Description</u>	<u>Special Revenue Fund</u>
14.228	\$ 1,062,484
14.871	197,068
10.558	3,625
93.575	131,757
83.544	59,111
16.710	266,178
11.300	<u>18,084</u>
Total federal awards expenditures:	1,738,307
Total state funds awards expenditures and other nonfederal expenditures:	<u>2,294,258</u>
Total expenditures, general purpose financial statements	<u><u>\$ 4,032,565</u></u>

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

Mayor and Municipal Legislature
Municipality of Guánica
Guánica, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Guánica as of and for the year ended June 30, 2002, and have issued our report thereon dated March 12, 2003 which is qualified due to inadequacy of accounting records regarding the amount of cash in the general and special revenue fund, the amount due from (to) other funds between general and special revenue funds; the amount presented in the general fixed assets accounts group and because we were unable to obtain a discussion or evaluation from the outside legal counsels on certain pending litigation or pending case settlements. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Municipality of Guánica's general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as item 2002 II-3 and 2002 II-5. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated March 13, 2003.

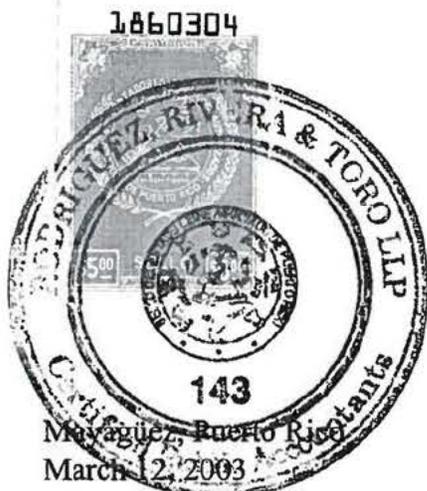
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Guánica's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that

we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Guánica's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002 II-1, 2002 II-2, 2002 II-4, 2002 II-5 and 2002 II-6.

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 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 all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002 II-1, 2002 II-2 and 2002 II-4 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated March 13, 2003.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Rodriguez Rivera & Toro

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

Mayor and Municipal Legislature
Municipality of Guánica
Guánica, Puerto Rico

Compliance

We have audited the compliance of Municipality of Guánica with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to its major federal programs for the year ended June 30, 2002. Municipality of Guánica's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Municipality of Guánica's management. Our responsibility is to express an opinion on Municipality of Guánica's compliance based on our audit.

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

In our opinion, the Municipality of Guánica complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances on 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 2002 III-1, 2002 III-3 and 2002 III-4.

Internal Control Over Compliance

The management of the Municipality of Guánica 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 Guánica'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, on our judgment could adversely affect the Municipality of Guánica'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 2002 III-1 to 2002 III-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered item 2002 III-5 to be a material weakness. We noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Guánica in a separate letter dated March 13, 2003.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.



Rodriguez, Rivera & Toro MR

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2002

I. Summary of audit results:

Part I - Financial Statements

- | | | |
|--|--|---|
| 1. Type of audit report: | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 2. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Reportable conditions reported as a material weakness | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 4. Material noncompliance disclosed | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

Part II - Federal Awards

- | | | |
|--|---|--|
| 1. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Reportable conditions reported as a material weakness | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Type of report on compliance for major programs | <input checked="" type="checkbox"/> Unqualified opinion
<input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Qualified opinion
<input type="checkbox"/> Disclaimer of opinion |
| 4. Audit findings required to be reported under Section 510(a) of Circular A - 133 | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. Major programs: | <u>CFDA Number(s)</u>
14.228 | <u>Name of Federal Program or Cluster</u>
Community Development Block Grant - State's Program |
| 6. Dollar threshold used to distinguish Type A and Type B programs | <input checked="" type="checkbox"/> \$300,000
<input type="checkbox"/> \$30,000,000 | <input type="checkbox"/> \$3,000,000 |
| 7. Low-risk auditee | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Accounting records and reports:

Reference number 2002 II-1

Condition and criteria:

The Municipality has not properly implemented and established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed the following:

- a. The Form 4(a) Cash Report is not being prepared on a monthly basis as required by established internal controls. In addition, several accounts included in the report related to general fund and state and federal grants accounts related to special revenue funds disclosed deficit or inappropriate cash ending balances. This situation is caused by excess and erroneous costs charged and interfund loans or advance payments not properly adjusted. A complete review of Form 4(a) Cash Report balances is recommended to correct and report appropriate revenues, expenditures and cash cumulative balances.
- b. Accounting records and reports are not properly balanced and reconciled with the computerized accounting system. We noted differences between amounts of revenues and expenditures reported in the Form 4(a) Cash Report, the annual budget liquidation report and the general ledger. Also, the carryover balance of certain general and special revenue fund accounts has not been properly determined and recorded in the general ledger. In addition, the Section 8 program general ledger is unbalanced and it does not include accounts related to program fund balance and interfund liabilities.

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Accounting records and reports: (continued)

Reference number 2002 II-1

- c. There are unreconciled or significant differences between cash balances in the Form 4(a) Cash Report with applicable bank reconciliations of SBGP, Section 8, "Nutrición", "Ley 52 - Departamento del Trabajo", "Programa Deambulantes", "Apoyo a la Familia", and "Fondos Especiales" special accounts. Those reconciling items arised primarily from amounts not adjusted in the report and accounting errors. In addition, the payroll bank account conciliation includes erroneous amounts and voided checks listed as outstanding.

Cause and effect:

There is no proper reconciliation procedures to assure adequacy and completeness between different accounting records and reports including general ledger, orders and contract register, federal financial assistance programs' records, bank reconciliations, monthly and annual reports and other financial information maintained by state agencies including the Government Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM). As a result, we could not conclude about certain balances at the general purpose financial statements including cash in the general and special revenue funds, and due from (to) balances between general and special revenue funds. This matter is considered a material weakness.

Recommendation:

A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management with a complete, accurate and reliable set

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Accounting records and reports: (continued)

Reference number 2002 II-1

of accounting records and reports. Those procedures should include, at least, the following:

- a. Preparation of 4(a) Monthly Report balances and reconciliation with funds subsidiary records and bank reconciliations.
- b. Reconciliation procedures between accounting records including general ledger and order and contract register must be done at least on a monthly basis to procure analysis of only current monthly transactions.
- c. Reconciliation of centralized accounting records with federal financial assistance records.
- d. Reconciliation of accounts which information is maintained by state agencies including Governmental Development Bank of Puerto Rico and the Municipal Revenue Collection Center (CRIM).

Area: Interfund transactions:

Reference number 2002 II-2

Condition and criteria:

Funds are advanced from general current bank account to other funds for salaries, fringe benefits and other costs incurred by several special accounts, which subsequently should be reimbursed by the applicable Commonwealth and federal agencies.

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Interfund transactions: (continued)

Reference number 2002 II-2

Our tests disclosed that the Municipality has not adequate controls and procedures over recording of advances and reimbursements. Also, there are no adequate follow up over amounts to be reimbursed to assure proper and timely repayment of advances.

Cause and effect:

Several amounts are not being reimbursed or not timely reimbursed by the applicable agencies. The Municipality has suffered significant losses for uncollectible amounts, which has increased the general fund deficit and severely affected its cash flow.

Recommendation:

The Municipality most immediately establish control procedures to minimize advances and control the timely reimbursement of funds. A complete review of uncollected balances since previous years should be performed to identify and claim uncollected funds from Commonwealth and Federal agencies.

Area: Budget:

Reference number 2002 II-3

Condition and criteria:

As required by the Autonomous Municipal Law of 1981, as amended, the Municipality should maintain adequate procedures to avoid the excess of expenditures over appropriations in the general fund budget. Our tests over the budget and costs control procedures disclosed that the general fund ended with an operational deficit of \$295,214 and a cumulative fund balance deficit of \$1,830,433.

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Budget:

Reference number 2002 II-3

Cause and effect: This matter is caused primarily to inadequate projections for revenues. Also there were inadequate controls over appropriations and interfund advances not collected in previous years.

Recommendation: Procedures should be established to assure compliance with budgetary requirements as stated by the Municipal Law .The Municipality should establish a deficit reduction plan covering the necessary budgetary credits in the annual budget as required by law, making appropriate revenue projections, performing necessary adjustments to annual budget to reflect negative revenue variances and collecting interfund advances.

Area: Property, plant and equipment:

Reference number 2002 II-4

Condition and criteria: The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories. Our tests disclosed the following:

- a. The computerized subsidiary records maintained by the Municipality do not reconcile with the amounts reported in the general purpose financial statements by a significant amount due to valuation and completeness deficiencies on fixed assets balances and records maintained by the Municipality.

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Property, plant and equipment: (continued)

Reference number 2002 II-4

- b. There are no established procedures to account for constructions in progress.
- c. A complete physical inventory of all fixed assets including buildings, land, land improvements and infrastructure has not been performed and reconciled with fixed assets records.

Cause and effect:

No proper controls and procedures over fixed assets inventories. Fixed assets amounts presented in the general purpose financial statements can not be adequately supported.

Recommendation:

A complete review of the fixed assets area should be done including an adequate fixed assets physical inventory, a reconciliation of subsidiary records with the amounts reported in the general purpose financial statements and establishment of controls to assure the completeness and valuation of fixed assets.

Area: Purchasing, receiving and cash disbursements:

Reference number 2002 II-5

Condition and criteria:

Our examination of internal controls and procedures over a sample of twenty-three (23) cash disbursements revealed the following internal controls and/or compliance deficiencies:

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Purchasing, receiving and cash disbursements: (continued)

Reference number 2002 II-5

Description	Cases
a. Invoice not signed by supplier	4
b. Purchase order prepared after service good or service was received (dated after invoice)	5
c. No evidence of clerical check on voucher	2
d. Supporting documents not signed by applicable personnel	4
e. No reports on use of donation as required by municipal regulations	1
f. Invoice not submitted for examination	2
g. Amount not recorded in general ledger	1
h. Accounts do not have sufficient budgetary credits before contract signature	3
i. No evidence of quotation or bid; no evidence of contract	2
j. Cancelled check not provided for examination	1

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Purchasing, receiving and cash disbursements: (continued)

Reference number 2002 II-5

Cause and effect: Failure to properly execute established internal control and procedures result in noncompliance with applicable laws and regulations.

Recommendation: Procedures should be revised and/or established at the Finance Department in order to comply with internal control procedures required by municipal regulations.

Area: Payroll and related liabilities:

Reference number 2002 II-6

Condition and criteria: Our examination of internal controls and procedures over a sample of twelve (12) employees files revealed the following deficiencies:

Deficiency	Cases
a. Gross salary not in agreement with "Notificación de Nombramiento"	1
b. Health certification not found	1
c. Assistance record not signed by supervisor	1
d. Eligibility form I-9 not found	3
e. Copy of social security card not found	2
f. Assistance record not found	1

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

II. Findings related to the financial statements reported in accordance with GAGAS:

Area: Payroll and related liabilities: (continued)

Reference number 2002 II-6

g. Good conduct certificate not found 1

Cause and effect: Failure to properly execute established internal controls and procedures may result in noncompliance with applicable laws and regulations.

Recommendation: Responsible personnel must ensure that established internal controls and procedures are followed adequately in order to comply with applicable laws and regulations.

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

III. Findings and questioned costs for federal awards:

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-1	US Department of HUD: Community Development Block Grant – State's Program CFDA 14.228	Procurement, suspension and debarment	-	\$ -	-	\$ -	-	\$ -	<p>Condition and criteria: Municipalities are required to request from contractors a certification stating that Entity's Principals are not suspended or debarred from doing business with state or Federal Government or this requirement may be included as a contract's clause. Our examination to the only construction contract financed with federal funds during fiscal period disclosed that such clause was not included in contract nor a certification was obtained from contractors.</p> <p>Cause and effect: Lack of adequate internal controls and procedures related with the suspense and debarment requirement may cause incompliance with a federal requirement.</p> <p>Recommendation: Federal Programs Director must establish necessary internal control and procedures in coordination with the Municipal Secretary Office to procure that certifications are obtained from contractors or a contract clause is included on contracts to ensure compliance with federal requirements.</p>	\$ -

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

III. Findings and questioned costs for federal awards: (Continued)

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-2	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Special tests and provisions	-	\$ -	-	\$ -	-	\$ -	<p>Condition and criteria: Our tests to a sample of six (6) participants files of housing rehabilitation program financed with SBGP funds disclosed that the following documents were missing from files:</p> <p>Evidence of work final inspection - in three cases No follow up visit or final photo - in three cases</p> <p>Cause and effect: There is a lack of adequate internal control procedures related to the materials donation process which may cause that funds are disbursed or not used as required.</p> <p>Recommendation: We recommend the Federal Programs Office Director to establish the necessary procedures to avoid the occurrence of these exceptions and the Municipality's internal auditor to perform an audit of participant files in order to determine compliance with program regulations with respect to documentation on files on rehabilitation work.</p>	\$ -

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

III. Findings and questioned costs for federal awards: (Continued)

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-3	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Cash Management	17	\$ -	6	\$ -	5	\$ -	<p>Condition and criteria: In our examination of controls and procedures used in the administration of federal funds, we noted that for a sample of six (6) receipts and deposits tested in five (5) cases disbursements were made between seven (7) and twenty-seven (27) days after related funds were deposited by OCAM. Cash management regulations require the Municipality to minimize the time between receipt of funds and the corresponding disbursement.</p> <p>Cause and effect: Failure to appropriately follow established internal controls and procedures.</p> <p>Recommendation: The Municipality should review established controls and procedures to minimize the time lapsing between receipts and use of federal funds to procure compliance with applicable laws, regulations and federal requirements as required by State Pass-through Agency.</p>	\$ -

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

III. Findings and questioned costs for federal awards: (Continued)

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-4	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Special tests and provisions; Reporting	-	\$ -	-	\$ -	-	\$ -	<p>Condition and criteria: Our examination disclosed that the Municipality has not performed adequate procedures to close Program Years 1994 and 1997. As per communication from OCAM, funds from those program years were fully requested but as per Municipality's records there are budgetary surpluses of \$1,728 and \$1,753, respectively for administrative costs. An analysis has not been performed to determine final outcome on this matter and submit the applicable Performance and Evaluation Reports.</p> <p>Cause and effect: Failure to properly perform established internal controls and procedures related with reporting may cause that required reports are not submitted to grantor when due.</p> <p>Recommendation: The Municipality should perform a review of transactions applicable to those program years to determine final results on funds required and expended and prepare the corresponding Performance and Evaluation Reports. This procedure should be coordinated with OCAM to finally close all opened years. For the remaining program years the Municipality should establish a conciliation procedure with OCAM records to maintain proper budgetary carryover balances.</p>	\$ -

Municipality of Guánica

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2002

III. Findings and questioned costs for federal awards: (Continued)

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2002 III-5	U.S. Department of HUD Community Development Block Grant-State's Program-CFDA Number 14.228	Special tests and provisions; 24 CFR 85.20							<p>Condition and criteria: SBGP program general ledgers are not balanced and complete. Salaries and fringe benefits expenditures amounts are recorded as reimbursed to the general fund instead as when incurred. Also, transactions related to assets and liabilities arising from interfund transactions are not recorded.</p> <p>Cause and effect: The federal program office records do not include all transactions and necessary accounts including information about certain assets, liabilities and fund balance transactions.</p> <p>Recommendation: A complete and immediate review of internal controls and procedures over financial records and reports at the federal programs office is necessary to assure accuracy of financial data and compliance with program requirements.</p>	\$ -
Total questioned costs										\$ -

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding No.	Condition	Status
1999,2000, 2001	1999 II-1, 2000 II-1, 2001 II-1	<p>The Municipality has not properly implemented and established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our audit revealed the following:</p> <ul style="list-style-type: none"> a. The Municipality is not preparing the 4(a) monthly report, which summarizes cash transactions of all funds of the Municipality. b. The Municipality is only recording in the general ledger and the orders and contracts register the current year revenues and expenditure accounts. The Municipality has not properly determined the carryover balance of general and special revenue accounts. As a result, certain state grant accounts which funds are deposited in the current bank account disclosed a deficit due to excess costs changed, interfund loans or advance payments not reimbursed. 	Findings cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding No.	Condition	Status
2001	2001 II-2	<p>c. There are several unreconciled balances with bank reconciliations including general fund current bank account and special revenue fund bank accounts.</p> <p>d. There are no adequate controls for recording transactions related to advances and reimbursements of funds from federal and state agencies. As a result, final receivable balance as of June 30, 2001 is inaccurate and we cannot conclude about valuation and completeness.</p> <p>Our tests over the budget and costs control procedures disclosed the following:</p> <p>a. There are several instances of excess of expenditures over appropriations in the general fund due to charges for insurance, fringe benefits, payroll taxes, utilities and miscellaneous expenditures.</p>	<p>Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 II-3 in the accompanying Schedule of Findings and Questioned Costs.</p>

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding No.	Condition	Status
2000,2001	2000 II-2, 2001 II-3	<p>b. The general purpose financial statements disclosed that the fiscal period 2000-2001 ended with an operational budgetary deficit of (\$471,860) and a cumulative fund balance deficit (GAAP) of (\$704,776).</p> <p>An adequate review of the fixed assets inventory listings has not been completely performed in order to ascertain that property is properly valuated, records are complete, all property actually disposed is properly recorded as retirements and subsidiary records and general ledger are reconciled. Our audit revealed the following:</p> <p>a. A physical inventory count of Municipal owned properties has not been performed to determine existence, completeness and valuation of fixed assets properties, as required by internal control procedures and Municipal Laws and regulations.</p>	<p>Findings cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 II-4 in the accompanying Schedule of Findings and Questioned Costs.</p>

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2002

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding No.	Condition	Status
		<p>b. There is a difference between the carryover balance of "Informe de Activos Fijos Ordenados" at June 30, 2001 per audited financial statements and the balance reported by the Municipality. Also, there are differences between "Informe de Cambio por Activo Fijo" and "Informe de Activos Fijos Ordenados".</p> <p>c. The Municipality does not maintain record of construction in progress and leasehold improvements.</p>	
2000,2001	2000 II-3, 2001 II-4	Our examination of internal controls and procedures over a sample of twenty-five (25) cash disbursements revealed several deficiencies.	Findings cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 II-5 in the accompanying Schedule of Findings and Questioned Costs.
2000,2001	2000 II-4, 2001 II-5	Our examination of internal controls and procedures over a sample of ten (10) employees files revealed several deficiencies.	Findings cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 II-6 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and Questioned Costs for Federal Awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-1	<p>Condition and criteria: In our tests related to procurement procedures we noted the following deficiencies:</p> <ul style="list-style-type: none"> a. In a bid for construction materials donation program the Municipality could not provide evidence for examination of proper evaluation and criteria for bidder selection. b. Required contractor's certification for suspension and debarment was not present for examination. 	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 III-1 in the accompanying Schedule of Findings and Questioned Costs.
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-2	<p>Condition and criteria: Our compliance tests of internal controls and procedures related with the administration of the SBGP disclosed the following deficiencies:</p> <ul style="list-style-type: none"> a. Supporting documents for selected vouchers for payments were not submitted or partially submitted for examination. b. Required authorized signature for selected voucher for payment was missing in document. c. Purchase order prepared after invoice date. d. Cash disbursement not posted on program's ledger. e. Supporting documents related to a bid for professional services was not provided for examination. <p>Questioned costs amount to \$105,907.</p>	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency.

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and Questioned Costs for Federal Awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-3	In our examination of internal controls and procedures related with the administration of construction material donation program the following deficiencies were noted: a. Participants' files were not provided for examination. b. Photo of damaged home was missing in file.	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 III-2 in the accompanying Schedule of Findings and Questioned Costs.
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-4	Our test to verify compliance with controls over financial records and reports disclosed that revenues and expenditures reported on SBGP program for the fiscal period 2000-2001 do not reconcile with records on centralized accounting system. The federal programs office could not provide a final expenditure balance for the fiscal period reconciled with funds requisition information provided by the Office of Commissioner of Municipal Affairs (OCAM).	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 III-5 in the accompanying Schedule of Findings and Questioned Costs.
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-5	In our examination of controls and procedures used in the administration of federal funds, we noted that in several occasions cash balances exceeded the limit of \$5,000 over the period of three working days.	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 III-3 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Guánica

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued

Year ended June 30, 2002

II. Findings and Questioned Costs for Federal Awards:

Fiscal year ended June 30,	Program	No.	Condition	Status
2001	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2001 III-6	The Performance and Evaluation Report (Closing Report) is due within 90 days after the termination of funds for any SBGP program year. During current year audit 2000-01, we noted the termination of three program year's funds but the required closing reports were not prepared or submitted to grantor.	Finding cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency. See current year finding number 2002 III-4 in the accompanying Schedule of Findings and Questioned Costs.
2000	US Department of HUD: Community Development Block Grant State's Program CFDA No. 14.228	2000 III-1	In our tests related to procurement procedures we noted that in one case related to a bid for construction materials donation program the Municipality could not provide evidence of proper evaluation and criteria for bidder selection.	Findings cleared by Office of Commissioner of Municipal Affairs (OCAM), pass-through grantor agency.
2000	Federal Emergency Management Agency: Public Assistance Grant CFDA No. 83.544	2000 III-2	Our compliance test of internal controls and procedures related with the administration of Public Assistance Grant program disclosed that in one (1) case a disbursement voucher and its supporting documentation was not provided for examination.	Finding and Questioned Costs for \$300,727 remain unclear by grantor.

**MUNICIPALITY OF GUANICA
GUANICA, PUERTO RICO**

**CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2002**

PREPARED FOR: *Virgen M. Ramos Suárez*
Virgen M. Ramos Suárez
Internal Auditor
March 25, 2003

**MUNICIPALITY OF GUANICA
CORRECTIVE ACTION PLAN
SCHEDULE OF FINDING AND QUESTIONED COSTS**

For Year Ended June 30, 2002

II Findings related to the financial statements reported in accordance with GAGAS:

Area: Accounting records and reports:

Reference number 2002 II –1

Corrective Actions: We will work on said records and reports to reconcile them and established the necessary controls.

Area: Interfund transactions:

Reference number 2002 II-2

Corrective Actions: We will be established control and procedures to minimize advances and control the timely reimbursement of funds. The Finance Director design a person will have a work with respect a complete review of uncollected balances since previous years should be performed to identify and claim uncollected fund from Commonwealth and Federal agencies.

Area: Budget:

Reference number 2002 II – 3

Corrective Actions: We will be established internal control and procedures to comply with the budgetary requirements as required the Municipal Law. At the same time, the Municipality general fund budget should include a credit to amortize the deficit.

Area: Property, plant and equipment:

Reference number 2002 II –4

Corrective Actions: We will work to improve our performance in this area by training a person who will have design a work with respect a complete review of the fixed assets a reconciliation of subsidiary records with the amounts reported in the general purpose financial statements and establishment of controls to valuation of fixed assets.

Area: Purchasing, Receiving and cash disbursements:

Reference number 2002 II –5

Corrective Actions: We are taking the necessary step to established adequate internal controls and procedures to comply applicable law and regulations.

Area: Payroll and related liabilities:

Reference number 2002 II-6

Corrective Actions: We are taking the necessary step to established adequate internal controls and procedures to comply with applicable laws and regulations.

III. Findings and questioned costs for federal awards:

Regulation: Procurement, suspension and debarment:

Reference number 2002 III –1

Corrective Actions: Federal Programs Director and Municipal Secretary Office establishment necessary internal control and procedures to procure that contracts to ensure compliance with federal requirements.

Regulation: Special tests and provisions:

Reference number 2002 III –2

Corrective Actions: The Federal Programs Director established internal controls and procedures to comply by the applicable laws regulations and federal requirements. The Internal Audit to perform an audit of participant files.

Regulation: Cash Management:

Reference number 2002 III –3

Corrective Actions: We will be review and established controls and procedures to minimize the time lapsing between receipts and use of federal funds to comply with the applicable laws, regulations and federal requirements.

Regulation: Special tests and provisions; Reporting:

Reference number 2002 III –4

Corrective Actions: The Municipality should perform a review of transactions applicable to those program years to determine final results on funds required and expended and prepare the corresponding Performance and Evaluation Reports. This procedure should be coordinated with OCAM to finally close all opened years. For the remaining program years the Municipality should establish a conciliation procedure with OCAM records to maintain proper budgetary carryover balances.

Regulation: Special test and provisions:

Reference number 2002 III –5

Corrective Actions: We will work to performance in this area a person who will have a work with respect a complete an immediate review of internal controls and procedures over financial records and reports at the federal programs office is necessary to assure accuracy of financial data and compliance with program requirements.



OFIC. DEL COMISIONADO
DE CUENTAS MUNICIPALES

05 JUN -2 PM 1:24

RECIBIDO
UNIDAD DE CORREO

Cof. No. 1: 3229

**Informe Especial sobre el cumplimiento con las
recomendaciones del Contralor y la corrección de las
fallas señaladas en el Informe de Auditoría M-02-38 del
7 de marzo de 2002**

MUNICIPIO DE GUANICA

13 de enero de 2005

MUNICIPIO DE GUANICA

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13 de enero de 2005

Hon. Martín Vargas Morales
Alcalde
Municipio de Guánica
Guánica, Puerto Rico

Honorable Alcalde:

Realizamos un examen que incluyó la realización de aquellos procedimientos que consideramos necesarios, para expresar una opinión sobre el cumplimiento del Municipio con las recomendaciones del Contralor y la corrección de las fallas señaladas en el **Informe de Auditoría M-02-38 del 7 de marzo de 2002**. El mismo se efectuó a base de las disposiciones que se establecen en los **Artículos 7.010 y 8.016 de la Ley Núm. 81 del 30 de agosto de 1991, Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991, según enmendada (Ley Núm. 81)**.

BASE LEGAL

La **Ley Núm. 344 del 2 de septiembre de 2000** enmendó los **Artículos 7.010 y 8.016 de la Ley Núm. 81 del 30 de agosto de 1991, Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991, según enmendada**, para establecer que los auditores externos contratados por los Municipios para realizar la auditoría anual sobre los estados financieros pasen juicio y emitan su opinión sobre el cumplimiento con las recomendaciones de la Oficina del Contralor de Puerto Rico y la corrección de las fallas señaladas en sus informes previos.

ALCANCE Y METODOLOGIA

El examen cubrió del 1 de julio de 2003 al 30 de junio de 2004. El mismo se realizó de acuerdo con las normas de atestación promulgadas por el Instituto Americano de Contadores Públicos Autorizados, en lo que concierne al cumplimiento con las recomendaciones y la corrección de las fallas señaladas en el **Informe de M-02-38 del 7 de marzo de 2002**. Efectuamos las pruebas que consideramos necesarias de acuerdo con las circunstancias. Además, como parte de nuestro examen, asistimos el 25 de agosto de 2004 a la orientación ofrecida por la Oficina del Contralor sobre el cumplimiento con las recomendaciones del Contralor y la corrección de las fallas señaladas en el **Informe de M-02-38 del 7 de marzo de 2002**.

La Carta Circular OC-2002-13 de la Oficina del Contralor de Puerto Rico (OCPR) establece que los auditores externos opinaran sobre los informes mas recientes emitidos por la OCPR al 28 de febrero del año anterior a la contratación de estos. Dado a que anterior a esta fecha la OCPR no ha emitido informes adicionales al **Informe de M-02-38 del 7 de marzo de 2002** sobre las operaciones del Municipio de Guánica, dicha Oficina determinó que como parte de este examen se cubrieran solo las recomendaciones parcialmente cumplimentadas o no cumplimentadas incluidas en el Informe sobre el Cumplimiento con las Recomendaciones incluidas en el **Informe de Auditoría M-02-38 del 7 de marzo de 2002** para el periodo que cubrió del 1 de julio de 2002 al 30 de junio de 2003. Este Informe fue emitido con fecha del 23 de enero de 2004.

El 22 de junio de 2004 y el 16 de noviembre de 2004 la OCPR emitió los Informes de Auditoría M-04-60 y M-05-29 respectivamente, sobre las operaciones del Municipio de Guánica. Debido a que estos fueron emitidos luego del 28 de febrero de 2004, el alcance este examen no cubre el cumplimiento con las recomendaciones y las fallas señaladas en dichos Informes, excepto por las recomendaciones 5, 6, 12 a (3)- (relacionada al hallazgo 9 b.1)- y 14 del Informe M-04-60. Dichas recomendaciones fueron verificadas como parte de las pruebas a las recomendaciones 7 a, 7b, 7c, 7d, 7e, 9, 13-d (1) y 28-a incluidas en el Anejo I - Anejo de Evaluación de Recomendaciones. Estas recomendaciones están relacionadas al cobro de fondos, déficit presupuestario, propiedad y administración de personal.

Informe de los Contadores Públicos Autorizados Independientes

*Al Alcalde y la Legislatura Municipal
Municipio de Guánica, Puerto Rico*

Hemos examinado el cumplimiento por parte de las Ramas Ejecutiva y Legislativa del Municipio de Guánica con las recomendaciones del Contralor emitidas en su Informe de Auditoría M-02-38 del 7 de marzo de 2002, durante el año fiscal terminado en 30 de junio de 2004 según los requerimientos de la Ley 344 del 2 de septiembre de 2000. Los funcionarios de las Ramas Ejecutiva y Legislativa del Municipio de Guánica son responsables por el cumplimiento de estas recomendaciones. Nuestra responsabilidad es emitir una opinión sobre el cumplimiento por parte de las Ramas Ejecutiva y Legislativa del Municipio de Guánica con estas recomendaciones basado en nuestro examen.

Llevamos a cabo nuestro examen de conformidad con los estándares de atestación establecidos por el Instituto Americano de Contadores Públicos Autorizados e incluyó examinar, a base de pruebas, evidencia acerca del cumplimiento por parte de las Ramas Ejecutiva y Legislativa del Municipio de Guánica con las recomendaciones mencionadas en el primer párrafo y efectuar otros procedimientos que consideremos necesarios en las circunstancias. Entendemos que nuestro examen nos provee una base razonable para nuestra opinión. Nuestro examen no provee una determinación legal sobre el cumplimiento por parte de las Ramas Ejecutiva y Legislativa del Municipio de Guánica con estas recomendaciones.

Nuestro examen reveló que ciertas recomendaciones de la Oficina del Contralor de Puerto Rico incluidas en el Informe mencionado en el primer párrafo que no han sido cumplimentadas o están parcialmente cumplimentadas por las Ramas Ejecutiva y Legislativa del Municipio de Guánica durante el año terminado el 30 de junio de 2004. Estas se detallan en el Anejo I - Anejo de Evaluación de Recomendaciones que se acompaña.

En nuestra opinión, excepto por lo indicado en el tercer párrafo, la Rama Ejecutiva del Municipio de Guánica cumplió, en todos sus aspectos significativos, con las recomendaciones de la Oficina del Contralor de Puerto Rico incluidas en su Informe M-02-38 del 7 de marzo de 2002 para el año terminado en 30 de junio de 2004.

Este informe se emite para uso e información de las Ramas Ejecutiva y Legislativa del Municipio de Guánica y la Oficina del Contralor de Puerto Rico y no ha sido emitido para otros y no debe ser utilizado por otros excepto por las Ramas Ejecutiva y Legislativa del Municipio de Guánica y la Oficina del Contralor de Puerto Rico. Sin embargo, luego de este ser aceptado por el Municipio de Guánica, el mismo constituye un documento público.

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Rodríguez Rivera & Toro LLP

CARTAS A LA GERENCIA

Los hallazgos de este examen se sometieron al Alcalde, Hon. Martín Vargas Morales, para comentarios.

COMENTARIOS DE LA GERENCIA

El Alcalde sometió sus comentarios, a través de un representante autorizado, sobre los hallazgos de este examen en carta del 25 de febrero de 2005, los cuales se incluyen en el Anejo II - Comentarios-Acción correctiva de la Gerencia a las recomendaciones no cumplimentadas y parcialmente cumplimentadas.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/ hallazgo	Comentarios del Auditor Externo
7-a	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables, los \$235,742 por distintos conceptos señalados en el Informe de la Auditoría Anterior - Página 17.	No Cumplimentada	De los \$235,742 adeudados, el Municipio sólo ha podido recaudar la cantidad de \$6,451. La cantidad restante todavía no ha sido recobrada según información provista por la Auditora Interna y el Director de Finanzas.
7-b	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables, los \$27,629 pagados indebidamente a un asesor por servicios relacionados con reclamaciones de fondos a FEMA. Hallazgo 9-A.1 Y 2.	No Cumplimentada	El Departamento de Finanzas del Municipio no suministró evidencia de que se haya realizado el recobro de la cantidad indicada en la recomendación.
7-c	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$13,950 pagados ilegalmente por anuncios incluidos en el Anuario de las Fiestas Patronales en el período electoral sin obtener la autorización de la Junta Examinadora de Anuncios de la Comisión Estatal de Elecciones. Hallazgo 15-A.	No Cumplimentada	El Departamento de Finanzas del Municipio no suministró evidencia de que se haya realizado el recobro de la cantidad indicada en la recomendación.
7-d	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$2,680 pagados ilegalmente al presidente de la Legislatura Municipal por dietas por asistir a reuniones de comisiones en su carácter de Presidente Ex-Oficio. Hallazgo 11-b (1).	No Cumplimentada	El Departamento de Finanzas del Municipio no suministró evidencia de que se haya realizado el recobro de la cantidad indicada en la recomendación.

Municipio de Guánica
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Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/ hallazgo	Comentarios del Auditor Externo
7-e	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$3,990 por primas del Fondo del Seguro del Estado no pagadas por los contratistas que prestaron servicios al Municipio. Hallazgo 18.	No Cumplimentada	El Departamento de Finanzas del Municipio no suministró evidencia de que se haya realizado el recobro de la cantidad indicada en la recomendación.
8	Ver que se cumpla con los reglamentos, las normas y los procedimientos establecidos por las agencias federales para la administración y fiscalización de los fondos que éstas asignan al Municipio. Hallazgo 1.	Parcialmente Cumplimentada	Según nuestra evaluación del resultado de Monitorías recientes hechas a los programas federales encontramos que en el caso de una monitoria realizada al Programa Sección 8 por la Oficina de HUD en San Juan esta revelo señalamientos en el área de registros de contabilidad. Según los resultados de las Auditorías Sencillas recientes hay señalamientos relacionados a la administración de ciertos programas federales. A la fecha de nuestro informe la apelación del Municipio al “Governors Authorized Representative (GAR)” relacionada con la auditoria de FEMA aun esta pendiente de resolución.
9	Tomar las medidas administrativas necesarias para desarrollar un plan de austeridad para eliminar el déficit presupuestario en los fondos operacionales. Hallazgo 2.	Cumplimentada	Para los años fiscales 2002-2003, 2003-2004 y 2004-2005 se presupuestaron las cantidades de \$46,985, \$91,522 y \$45,000 respectivamente para cubrir el déficit acumulado de años anteriores. Según los estados financieros auditados del año fiscal 2003-2004, el fondo general presenta un superávit acumulado de \$261,129, producto de un sobrante en las operaciones de \$720,820.

Municipio de Guánica
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Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
10	Tomar las medidas administrativas necesarias con respecto a las deudas con las entidades gubernamentales que se indican en el Hallazgo 3 , y ver que los pagos a esas agencias se remesen dentro del tiempo establecido para ello.	Parcialmente Cumplimentada	En cuanto a la deuda con el Departamento del Trabajo y Recursos Humanos, el Municipio se acogió a un plan de pagos cuyos pagos se realizaron según lo acordado durante los años fiscales 2002-2003 y 2003-2004. Sin embargo, el Municipio aún no ha pagado las facturas del Departamento del Trabajo pertenecientes a los trimestres posteriores a la formalización del plan de pagos.
11	Asegurarse de que en el período electoral no se transfieran a otras partidas las asignaciones presupuestarias destinadas al pago de recogido y disposición de los desperdicios sólidos. Hallazgo 4-a.	No se pudo Concluir	No se pudo concluir en cuanto a la implementación de la recomendación debido a que ninguna porción del año bajo examen cayó dentro de un período electoral.
12	Someter a la Legislatura Municipal en el término establecido, copia de las resoluciones en las cuales se autoricen transferencias de crédito entre partidas presupuestarias. Hallazgo 4-b.	Parcialmente Cumplimentada	El Director de Finanzas sometió evidencia de que a partir de marzo de 2004 estas resoluciones están siendo enviadas a la Legislatura Municipal pero encontramos un caso en el cual la resolución se radicó fuera del término de días que especifica la Ley y en otro caso no se encontró evidencia de la fecha de radicación para sustentar si la misma se radicó en el término de días que especifica la Ley.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
13-b (5)	Ejercer una supervisión eficaz sobre las funciones del Director de Finanzas para asegurarse de que procese los comprobantes de desembolso cuando éstos contengan las facturas originales firmadas por los proveedores. Hallazgo 5-g.	Cumplimentada	En una muestra de 40 comprobantes de desembolso examinados, encontramos que en todos los casos estos contenían las facturas originales firmadas por los proveedores.
13-d (1)	Ejercer una supervisión eficaz sobre las funciones del Director de Finanzas para asegurarse de que corrija las deficiencias relacionadas con la propiedad. Hallazgo 20-b y c.	Parcialmente Cumplimentada	En cuanto a los recibos Modelo OCAM-FA03 examinamos una muestra 36 de ellos emitidos a varias dependencias Municipales y encontramos que en 15 casos estos no estaban firmados por los jefes de dependencia y/o supervisores que tenían a cargo la custodia de la propiedad; en 25 casos estos no estaban firmados por el empleado que utilizaba los mismos y en 3 casos estos no estaban firmados por la encargada de la propiedad, a pesar de que el equipo ya se había entregado a la dependencia.
14	Asegurarse de que se emitan requisiciones autorizadas por los jefes de dependencias municipales donde se originan los gastos antes de que se ordenen las compras y los servicios. Hallazgo 5-h.	Cumplimentada	En una muestra de 40 comprobantes de desembolso examinados, encontramos que todas las requisiciones autorizadas por los jefes de dependencias municipales donde se originan los gastos se emitieron antes de que se ordenaran las compras y los servicios.
15	Ver que se obtengan cotizaciones de precio de, por lo menos, tres proveedores para obras que no excedan de \$40,000, y para las compras y servicios que no excedan de \$10,000 anuales. Hallazgo 6-a. y b.	Cumplimentada	En una muestra de 40 comprobantes de desembolso examinados, encontramos que en todos los casos en donde aplicaban las cotizaciones los mismos contenían las cotizaciones mínimas requeridas.

Municipio de Guánica
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Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
16	Obtener la autorización previa de la Legislatura Municipal para efectuar compras en el mercado abierto. Hallazgo 6-c.	Parcialmente Cumplimentada	En el año fiscal 2003-2004, la Legislatura Municipal autorizó mediante Ordenanzas Municipales compras en el mercado abierto para renglones relacionados a medicamentos necesarios para el Centro de Servicios de Salud (septiembre de 2003) y para compra de municiones para la Policía Municipal. Pero la Secretaria de la Legislatura Municipal no suministró evidencia de dicha aprobación para los demás renglones no adjudicados en la subasta general.
18	Cumplir con la ley en cuanto a someter a la aprobación de la Junta de Subastas las órdenes de cambio por trabajos adicionales en las obras contratadas. Hallazgo 6-e.	No se pudo concluir	Durante el año fiscal 2003-2004 los proyectos de construcción más significativos estaban siendo construidos por administración y/o no tuvieron órdenes de cambio, por lo cual no se pudo determinar si el Municipio está cumpliendo con la recomendación indicada.
19	Ver que se obtengan los permisos de las agencias estatales correspondientes antes de contratar la construcción de las obras. Hallazgo 7.	No se pudo concluir	Durante nuestro examen la gerencia no sometió evidencia de los permisos de construcción de los proyectos más significativos comenzados durante el año fiscal 2003-2004.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
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Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
20	Cumplir con la ley en lo referente a no incurrir en gastos que sean extravagantes e innecesarios, de manera que los recursos del Municipio se utilicen en servicios que resulten en beneficio del interés público. Hallazgos 8 y 9a. 3.	No Cumplimentada Cumplimentada	En el año fiscal 2003-2004 el gasto total incurrido por el Municipio en las Fiestas Patronales fue de \$132,372. Los ingresos totales devengados por dicha actividad fueron de \$45,000. Esto representó una deficiencia de \$87,372, la cual se cubrió con los fondos operacionales. Examinamos una muestra de 4 comprobantes de desembolso de las cuentas de gastos de viaje y de actividades especiales para verificar la adecuación y la necesidad de los de los desembolsos envueltos. Entendemos que los costos incurridos y pagados por el Municipio fueron razonables y apropiados tomando en consideración el propósito y el número de personas que asistieron a cada actividad.
23	Cumplir con la ley en cuanto a los nombramientos de personas pensionadas por años de servicios. Hallazgo 12.	No se pudo Concluir	El Director de Recursos Humanos nos indicó que durante el año fiscal 2003-2004 el Municipio no empleó a ningún pensionado a jornada completa ni a jornada parcial.
24	Ver que se sometían a esta Oficina, dentro del tiempo establecido para ello, copia de todos los contratos que se formalicen, según se requiere por la Ley Núm. 81 del 30 de octubre de 1975 , según enmendada, y por el Reglamento Núm. 33 promulgado por la Oficina del Contralor de Puerto Rico en virtud de dicha Ley. Hallazgo 13.	No Cumplimentada	Examinamos una muestra de 6 contratos formalizados durante el año fiscal 2003-2004. En 2 de éstos el Municipio no suministró evidencia de la fecha de recibo por la Oficina del Contralor. De los restantes 4 contratos, 3 de ellos se sometieron a la Oficina del Contralor con una tardanza de un mes y sólo 1 de ellos se sometió a la Oficina del Contralor dentro del período prescrito por ley.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
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Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
25	Ver que los contratos de servicios profesionales y consultivos tengan todas las cláusulas e información requeridas. Hallazgo 14-a.	No Cumplimentada	Al examinar una muestra de 4 contratos de servicios profesionales y consultivos encontramos que en un caso (servicios legales) no se indicó el número de licencia profesional, ni el número de la partida presupuestaria de la cual se efectuarán los pagos. En otros 2 casos no se incluyó la partida presupuestaria de la cual se efectuarán los pagos ni la cantidad máxima anual a ser pagada.
26	Asegurarse de que los funcionarios que se indican en el Hallazgo 15-b. presenten los justificantes de los gastos por \$7,894 de los fondos que se les anticiparon para viajes al exterior o, en su defecto, que reintegren dichos fondos al Municipio.	No Cumplimentada	La Auditora Interna y el Director de Finanzas nos indicaron que los justificantes aún no han sido presentados y/o los fondos no han sido reintegrados.
27	Agilizar el cobro de las cuentas por cobrar que se indican en el Hallazgo 17.	Parcialmente Cumplimentada	Como parte de nuestro examen se obtuvo evidencia del recobro de \$29,234 de patentes municipales (de un total de \$70,391) y de \$35,001 de arbitrios de construcción (de un total de \$64,234). No se obtuvo evidencia del cobro de \$15,355 de la venta de fosas del cementerio.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
28-a	Ver que se corrijan las deficiencias relacionadas con la administración del personal. Hallazgo 19.	Cumplimentada	La Oficina Central de Asesoramiento Laboral y de Administración de Recursos Humanos (OCALARH) aprobó los Planes de Clasificación y Retribución Uniformes para el Servicio de Confianza de la Rama Ejecutiva, para el Servicio de Carrera de la Rama Ejecutiva y el Plan de Clasificación y Retribución de la Legislatura Municipal. Dichos planes también fueron aprobados por la Legislatura Municipal.
		Parcialmente Cumplimentada	El Director de la Oficina de Recursos Humanos del Municipio nos sometió un informe de los empleados transitorios que tenía el Municipio al 30 de junio de 2004. El informe incluye 71 empleados de los cuales 8 de ellos todavía no llevaban un año como transitorios.
		Parcialmente Cumplimentada	El Director de la Oficina de Recursos Humanos del Municipio nos suministró evidencia de que se abrieron convocatorias para que estos empleados aplicaran para ser empleados regulares. De éstos, un total de 54 recibieron nombramientos probatorios en mayo, julio y septiembre de 2004. No se pudo identificar cuáles de esos empleados eran parte de los 32 empleados que según el informe del Contralor, al 30 de septiembre de 2000 habían ejercido funciones como transitorios por un período mayor a un año. Además quedan 9 empleados del listado provisto que todavía no han recibido el nombramiento probatorio.
		Parcialmente Cumplimentada	El 21 de mayo de 2004 se aprobó la reglamentación interna sobre jornada de trabajo y asistencia. En la misma se menciona que se pueden aprobar los horarios flexibles, pero no tiene normas específicas o las disposiciones necesarias sobre el horario flexible.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/hallazgo	Comentarios del Auditor Externo
28-b	Ver que se corrijan las deficiencias relacionadas con el registro o historial de cada equipo automotor. Hallazgo 22-d.	Cumplimentada	Visitamos el garaje municipal y en la caseta de vigilancia se mantiene un registro en donde se detalla el horario de entrada y salida de cada vehículo, la persona que utilizó el vehículo o equipo, la fecha en que lo utilizó y los lugares de los viajes realizados.
33	Ver que se corrijan las deficiencias relacionadas con los documentos, los expedientes y las actas de la Junta de Subastas. Hallazgo 16.	Parcialmente Cumplimentada	El Municipio informo que la información sobre el millaje recorrido y reparaciones se documenta en un registro que se mantiene en cada vehículo. Sin embargo, observamos los registros de varios vehículos y los mismos se encontraban en blanco.
		No Cumplimentada	En las actas de las reuniones para la adjudicación de las subastas generales del año fiscal 2003-2004 encontramos que en 18 de los renglones no se indicaba la razón por la cual la Junta de Subastas adjudicó ese renglón al suplidor seleccionado.
		Parcialmente Cumplimentada	Realizamos una verificación de una muestra de 59 expedientes de los licitadores. En 21 casos no se encontró el original de la oferta del licitador; no había evidencia de la fianza provisional presentada en 20 de los licitadores; en el caso de 4 licitadores los expedientes no contenían la carta de adjudicación; y para 13 licitadores no había evidencia del envío de la carta de adjudicación mediante correo certificado con acuse de recibo.

Municipio de Guánica
Anejo I – Anejo de Evaluación de Recomendaciones
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Status de la recomendación/ hallazgo	Comentarios del Auditor Externo
34	<p>Informar a la Legislatura Municipal sobre las situaciones que se comentan en los hallazgos 1, 2, 3, 6-c. y d., 8, 9-a. 3, 11, 12, 13, 15-b. y c., 17, 19, 22-a.1 y 4 y b. y 23, de modo que se adopten las medidas correctivas que procedan, y establecer un plan de seguimiento para ver que esas situaciones se atiendan.</p>	Parcialmente Cumplimentada	<p>La Secretaria de la Legislatura Municipal nos certificó que una vez la Legislatura recibió el informe de la Oficina del Contralor M-02-38 se le sometió a cada Legislador una copia del informe y del Plan de Acción Correctiva realizado por la Oficina de Auditoría Interna del Municipio. Indica que ya se ha trabajado en algunos hallazgos tales como la aprobación de transferencias internas radicadas, la confirmación de los miembros de la Junta de Subasta y la confirmación de puestos de funcionarios. Sin embargo, no nos sometió evidencia de que el mismo se haya discutido por la Legislatura Municipal ni del establecimiento de un plan de seguimiento para ver que las situaciones indicadas en la recomendación se atiendan.</p>

Municipio de Guánica
Anejo II Comentarios – Acción correctiva de la gerencia a las recomendaciones no cumplimentadas y parcialmente cumplimentadas
Informe Especial – Oficina del Contralor
30 de junio de 2004

Número de recomendación	Recomendaciones del Contralor	Acción correctiva de la Gerencia
7-a	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables, los \$235,742 por distintos conceptos señalados en el Informe de la Auditoria Anterior – Página 17.	Se continuara con la gestión de cobro pertinente y se tomara las medidas correspondientes para que esto no vuelva a ocurrir.
7-b	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables, los \$27,629 pagados indebidamente a un asesor por servicios relacionados con reclamaciones de fondos a FEMA, Hallazgo 9-A.1 Y 2.	Se les hicieron acercamientos a las partes aquí mencionadas para llegar a un acuerdo sobre este particular. Los mismos respondieron a los acercamientos de lo cual resulta pautar una reunión para ventilar la situación.
7-c	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$13,950 pagados ilegalmente por anuncios incluidos en el Anuario de las Fiestas Patronales en el periodo electoral sin obtener la autorización de la Junta Examinadora de Anuncios de la Comisión Estatal de Elecciones. Hallazgo 15-A.	En este caso la forma más viable era recuperar el dinero de las fianzas pero no se hizo cuando era pertinente y la misma prescribió. Sobre la base de esta situación se esta trabajando arduamente para que situaciones como estas no vuelvan a ocurrir.
7-d	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$2,680 pagados ilegalmente al presidente de la Legislatura Municipal por dietas por asistir a reuniones de comisiones en su carácter de Presidente Ex-Oficio. Hallazgo 11-b (1).	Deseo comunicarle que como nuevo auditor del municipio tomare la iniciativa de gestionar el cobro de las dietas pagadas ilegalmente.
7-e	Recobrar de los contratistas, proveedores y otros, o de las fianzas de los funcionarios responsables los \$3,990 por primas del Fondo del Seguro del Estado no pagadas por los contratistas que prestaron servicios al Municipio. Hallazgo	Se procederá a hacer las gestiones de cobro de las mismas y se velara porque situaciones como estas no vuelvan a ocurrir.

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	18.	
8	Ver que se cumpla con los reglamentos, las normas y los procedimientos establecidos por las agencias federales para la administración y fiscalización de los fondos que éstas asignan al Municipio. Hallazgo 1.	Es notable ver el progreso que ha tenido esta oficina en los últimos años, pero mejor aun se tomo la iniciativa de perfeccionar todo el proceso. Por ejemplo: hacer y mantener las reconciliaciones al día, y contabilizar todas las reservas de cargos administrativos.
9	Tomar las medidas administrativas necesarias para desarrollar un plan de austeridad para eliminar el déficit presupuestario en los fondos operacionales. Hallazgo 2.	
10	Tomar las medidas administrativas necesarias con respecto a las deudas con las entidades gubernamentales que se indican en el Hallazgo 3, y ver que los pagos a esas agencias se remesen dentro del tiempo establecido para ello.	Se estableció un plan de pago con el Departamento del Trabajo el cual termina en febrero de 2005. Además se incluirá en el nuevo presupuesto una partida para pagar la deuda de trimestres anteriores al plan de pago.
11	Asegurarse de que el período electoral no se transfieran a otras partidas las asignaciones presupuestarias destinadas al pago de recogido y disposición de los desperdicios sólidos. Hallazgo 4-a.	
12	Someter a la Legislatura Municipal en el término establecido, copia de las resoluciones en las cuales se autoricen transferencias de crédito entre partidas presupuestarias. Hallazgo 4-b.	Se tomaron las medidas necesarias para cumplir con esta recomendación para evitar que situaciones similares vuelvan a ocurrir.
13-b (5)	Ejercer una supervisión eficaz sobre las funciones del Director de Finanzas para asegurarse de que se procese los comprobantes de desembolso cuando éstos contengan las facturas originales firmadas por los proveedores. Hallazgo 5-g.	
13-d (1)	Ejercer una supervisión eficaz sobre las funciones del Director de Finanzas para asegurarse de que corrija las deficiencias relacionadas con la propiedad. Hallazgo 20-b	La oficina de auditoria interna estará trabajando en conjunto con el Director de Finanzas para revisar que todo recibo sea firmado no tan

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	y c.	solo por el jefe de dependencia como exige la forma OCAM-FA03, si no que sea firmada también por el usuario. Esta determinación ya esta en acción.
14	Asegurarse de que se emitan requisiciones autorizadas por los jefes de dependencias municipales donde se originan los gastos antes de que se ordenen las compras y los servicios. Hallazgo 5-h.	
15	Ver que se obtengan cotizaciones de precio de, por lo menos, tres proveedores para obras que no excedan de \$40,000, y para las compras y servicios que no excedan de \$10,000 anuales. Hallazgo 6-a. y b.	
16	Obtener la autorización previa de la Legislatura Municipal para efectuar compras en el mercado abierto. Hallazgo 6-c.	Se están completando ordenanzas para cumplir con esta disposición. La oficina de auditoria se encargara de tomar las medidas necesarias para que no se aparten de lo dispuesto.
18	Cumplir con la ley en cuanto a someter a la aprobación de la Junta de Subastas las órdenes de cambio por trabajos adicionales en las obras contratadas. Hallazgo 6-e.	
19	Ver que se obtengan los permisos de las agencias estatales correspondientes antes de contratar la construcción de las obras. Hallazgo 7.	
20	Cumplir con la ley en lo referente a no incurrir en gastos que sean extravagantes e innecesarios, de manera que los recursos del Municipio se utilicen en servicios que resulten en beneficio del interés público. Hallazgos 8 y 9a. 3.	En los últimos años el gasto de las fiestas patronales ha bajado significativamente. Para lograr mejorar este aspecto se ha recurrido por ejemplo a bajar los días de duración de las mismas. Hay que tomar en consideración también como medida para determinar la extravagancia el alza en el costo de vida.
23	Cumplir con la ley en cuanto a los nombramientos de personas pensionadas por años de servicios. Hallazgo 12.	

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24	Ver que se sometan a esta Oficina, dentro del tiempo establecido para ello, copia de todos los contratos que se formalicen, según se requiere por la Ley Núm. 81 del 30 de octubre de 1975 , según enmendada, y por el Reglamento Núm. 33 promulgado por la Oficina del Contralor de Puerto Rico en virtud de dicha Ley. Hallazgo 13.	La oficina de Secretaria Municipal esta actualmente sometiendo al día los contratos a la Oficina del Contralor, tanto el Administrador Municipal como la Oficina de Auditoria Interna esta monitoreando el mismo para que se cumpla y no vuelvan a ocurrir hechos similares.
25	Ver que los contratos de servicios profesionales y consultivos tengan todas las cláusulas e información requeridas. Hallazgo 14-a.	Actualmente esta incluido en los contratos una certificación de la partida de la cual se otorga el pago y de que la misma tiene los fondos para sufragar la misma. También la oficina de Auditoria hizo el acercamiento para que se incluyera el número de licencia del contratado si aplicara el caso, por ejemplo: médicos, abogados, etc.
26	Asegurarse de que los funcionarios que se indican en el Hallazgo 15-b. presenten los justificantes de los gastos por \$7,894 de los fondos que se les anticiparon para viajes al exterior o, en su defecto, que reintegren dichos fondos al Municipio.	Se realizaran todas las gestiones necesarias para que los justificantes sean presentados, de los mismos no ser presentados se procederá al cobro de los mismos para reintegrar este dinero a los fondos de donde se origino.
27	Agilizar el cobro de las cuentas por cobrar que se indican en el Hallazgo 17.	Actualmente sé continuo con el cobro de las mismas.
28-a	Ver que se corrijan las deficiencias relacionadas con la administración del personal. Hallazgo 19.	Se están tomando las medidas pertinentes para que este tipo de situaciones no vuelva a ocurrir. De estos empleados a los que se apela en este hallazgo, solo dos no han recibido el nombramiento probatorio. El primero la razón es que el mismo esta encarcelado y el segundo en el nuevo presupuesto se van asignar nuevas convocatorias para que compitan en las mismas. Se estableció un reglamento de Jornada de Trabajo, el cual habla

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28-b	Ver que se corrijan las deficiencias relacionadas con el registro o historial de cada equipo automotor. Hallazgo 22-d.	sobre el horario flexible del cual se están beneficiando actualmente algunos empleados ya sea por razones de estudio entre otras. Se recomendará que se incluya como parte del reglamento las normas y disposiciones necesarias para participar del horario flexible. Se tomarán las medidas necesarias para que se cumpla con lo establecido en el inciso. Se le brindará nuevamente orientación a los usuarios de cómo llenar el documento, se le explicará su importancia y las repercusiones de no hacerlo etc.
33	Ver que se corrijan las deficiencias relacionadas con los documentos, los expedientes y las actas de la Junta de Subastas. Hallazgo 16.	Se están tomando las medidas necesarias para que este tipo de situaciones no se repita.
34	Informar a la Legislatura Municipal sobre las situaciones que se comentan en los hallazgos 1, 2, 3, 6-c. y d., 8, 9-a, 3, 11, 12, 13, 15-b. y c., 17, 19, 22-a.1 y 4 y b. y 23, de modo que se adopten las medidas correctivas que procedan, y establecer un plan de seguimiento para ver que esas situaciones se atiendan.	Se está mejorando cada día este aspecto hasta llegar a la perfección.

Autorizado por:



Hon. Martín Vargas Morales
Alcalde Municipio de Guánica

25 de febrero de 2005

Fecha

