

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

**MUNICIPIO DE GUAYAMA**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

OFICIO DEL COMISIONADO

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RECIBIDO  
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF GUAYAMA**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2002**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYAMA

YEAR ENDED JUNE 30, 2002

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF GUAYAMA**

**YEAR ENDED JUNE 30, 2002**

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

## **INDEPENDENT AUDITORS' REPORT**

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

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

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

The general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included to conform with accounting principles generally accepted in the United States of America. As indicated in **Note 6** to the general-purpose financial statements, the amount of the investment in general fixed assets has not been determined.

As disclosed in **Note 12**, at June 30, 2002, the Municipality had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the actual obligation for landfill closure and postclosure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Postclosure Care Costs. Therefore, we do not express an opinion on such amount presented on the general-purpose financial statements.

**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets of the Municipality and the balances and transactions disclosed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Guayama** as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2002

Stamp No. 1853983 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



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

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>						
Cash and cash equivalents	\$4,470,869	1,918,576		\$1,802,311		\$8,191,756
Cash with fiscal agent		766,435	3,901,723	7,041,788		11,709,946
Intergovernmental receivable	888,336			335,812		1,224,148
Federal grants receivable		963,987		90,180		1,054,167
Due from other funds	716,995	675,262		288,110		1,880,367
Other assets		52,538				52,538
Amount available in Debt Service Fund					\$3,901,723	3,901,723
Amount to be provided for retirement of general long-term debt					20,017,665	20,017,665
<b>Total assets and other debits</b>	<b>\$6,076,200</b>	<b>\$4,376,798</b>	<b>\$3,901,723</b>	<b>\$9,558,201</b>	<b>\$23,919,388</b>	<b>\$47,832,310</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$759,393	318,632		\$563,483		\$1,641,508
Due to other funds	758,372	729,180		213,000		1,700,552
Due to other governmental entities	807,554	10,110			\$3,226,485	4,044,149
Deferred - other		273,581				273,581
Deferred municipal license tax revenues	7,931,094					7,931,094
Deferred federal grant revenues		332,767		183,925		516,692
General obligation bonds					17,566,105	17,566,105
Landfill obligations					1,675,742	1,675,742
Note payable					330,000	330,000
Accrued compensated absences					1,121,056	1,121,056
<b>Total liabilities</b>	<b>10,256,413</b>	<b>1,664,270</b>		<b>960,408</b>	<b>23,919,388</b>	<b>36,800,479</b>
<b>Fund equity:</b>						
<b>Fund balances (deficit):</b>						
Reserved for encumbrances	713,354	495,287		1,254,506		2,463,147
Reserved for debt service			\$3,901,723			3,901,723
<b>Unreserved:</b>						
Designated for specific fund purposes		311,143		7,343,287		7,654,430
Undesignated	(4,893,567)					(4,893,567)
<b>Total fund equity (deficit)</b>	<b>(4,180,213)</b>	<b>2,712,528</b>	<b>3,901,723</b>	<b>8,597,793</b>		<b>11,031,831</b>
<b>Total liabilities and fund equity</b>	<b>\$6,076,200</b>	<b>\$4,376,798</b>	<b>\$3,901,723</b>	<b>\$9,558,201</b>	<b>\$23,919,388</b>	<b>\$47,832,310</b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$6,055,777		\$1,471,165		\$7,526,942
Municipal license taxes	7,616,622				7,616,622
Licenses and permits	878,712				878,712
Intergovernmental	2,625,402	\$893,114			3,518,516
Rent of property	221,958				221,958
Fines and penalties	9,074				9,074
Interest	477,046				477,046
Federal grants		13,568,024			13,568,024
Miscellaneous	740,341	494,588			1,234,929
<b>Total revenues</b>	<u>18,624,932</u>	<u>14,955,726</u>	<u>1,471,165</u>		<u>35,051,823</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	1,964,163				1,964,163
General government	5,433,686	9,752,352			15,186,038
Public safety	1,283,777				1,283,777
Public works	2,907,318	743,294		2,303,478	5,954,090
Public health and sanitation	2,635,615				2,635,615
Welfare		1,407,739			1,407,739
Economic development	333,504				333,504
Recreation	421,709				421,709
Human services	639,322	115,179			754,501
Other		111,317			111,317
Principal retirement			807,896		807,896
Interest			1,145,044		1,145,044
<b>Capital outlays</b>	15,848	148,185		21,284	185,317
<b>Total expenditures</b>	<u>15,634,942</u>	<u>12,278,066</u>	<u>1,952,940</u>	<u>2,324,762</u>	<u>32,190,710</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	2,989,990	2,677,660	(481,775)	(2,324,762)	2,861,113
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers from other funds		1,782,375	32,553	1,931,651	3,746,579
Operating transfers to other funds	(1,814,928)	(1,931,651)			(3,746,579)
<b>Total other financing sources (Uses)</b>	<u>(1,814,928)</u>	<u>(149,276)</u>	<u>32,553</u>	<u>1,931,651</u>	<u>-</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)</b>	1,175,062	2,528,384	(449,222)	(393,111)	2,861,113
<b>Fund balances (deficit), beginning as restated</b>	<u>(5,355,275)</u>	<u>184,144</u>	<u>4,350,945</u>	<u>8,990,904</u>	<u>8,170,718</u>
<b>Fund balances (deficit), ending</b>	<u>(\$4,180,213)</u>	<u>\$2,712,528</u>	<u>\$3,901,723</u>	<u>\$8,597,793</u>	<u>\$11,031,831</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL AND DEBT SERVICE FUNDS**  
**YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$5,338,540	\$5,338,540	-	\$1,761,033	\$1,471,165	(\$289,868)
Municipal license taxes	8,111,200	7,616,622	(\$494,578)			
Licenses and permits	905,827	878,712	(27,115)			
Intergovernmental	2,830,265	2,454,303	(375,962)			
Rent of property	239,121	221,958	(17,163)			
Fines and penalties	9,547	9,074	(473)			
Interest	585,080	477,046	(108,034)			
Miscellaneous	1,931,950	740,341	(1,191,609)			
<b>Total revenues</b>	<b>19,951,530</b>	<b>17,736,596</b>	<b>(2,214,934)</b>	<b>1,761,033</b>	<b>1,471,165</b>	<b>(289,868)</b>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	2,149,884	2,064,956	84,928			
General government	6,012,759	5,473,307	539,452			
Public safety	1,546,579	1,284,420	262,159			
Public works	3,695,958	3,023,048	672,910			
Public health and sanitation	3,034,928	2,635,615	399,313			
Economic development	433,376	333,504	99,872			
Recreation	436,260	421,709	14,551			
Human services	782,159	649,693	132,466			
Principal retirement				914,033	807,896	106,137
Interest				879,553	1,145,044	(265,491)
Capital outlays	34,652	31,118	3,534			
<b>Total expenditures and encumbrances</b>	<b>18,126,555</b>	<b>15,917,370</b>	<b>2,209,185</b>	<b>1,793,586</b>	<b>1,952,940</b>	<b>(159,354)</b>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>	<b>1,824,975</b>	<b>1,819,226</b>	<b>(5,749)</b>	<b>(32,553)</b>	<b>(481,775)</b>	<b>(514,328)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer to other funds	(1,824,975)	(1,814,928)	10,047			
Operating transfer from other funds				32,553	32,553	-
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>	<b>-</b>	<b>4,298</b>	<b>4,298</b>	<b>-</b>	<b>(449,222)</b>	<b>(449,222)</b>
<b>Adjustment required under Generally Accepted Accounting Principles:</b>						
Net change in encumbrances		282,428				
GAAP adjustments to revenues		888,336				
<b>Fund balances (deficit), beginning as restated</b>		<b>(5,355,275)</b>			<b>4,350,945</b>	
<b>Fund balances (deficit), ending</b>		<b>(\$4,180,213)</b>			<b>\$3,901,723</b>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The **Municipality of Guayama** (the Municipality) was established in 1736. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a sixteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

**A. Financial reporting entity:**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

B. Basis of presentation:

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

**Governmental fund types:**

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

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

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

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

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

**Account groups:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**C. Basis of accounting:**

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

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

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

**D. Reservations of fund balance:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**E. Budgetary data:**

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

- Prior to May 15, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

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

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

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GUAYAMA**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2002**

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

**F. Cash and cash equivalents:**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in a saving account and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2002 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

**G. Inventories:**

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

**H. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant. As indicated in Note 6, the information to account for these general fixed assets is not available.

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**J. Compensated absences:**

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

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

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

In accordance with the above criteria and requirements as established by GASB Number 16, *Accounting for Compensated Absences*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2002.

**K. Insurance:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**L Total columns (memorandum only):**

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

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

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

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

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

Puerto Rico Aqueduct and Sewer Authority	\$ 67,050
General Services Administration	7,982
Internal Revenue Service	3,619
Department of Treasury	654,510
Puerto Rico Telephone Company	74,393
	<hr/>
	\$ 807,554

The Municipality reached agreements with the Puerto Rico Aqueduct and Sewer Authority, the Department of Treasury and the Department of Labor for the payment of debts on a long-term basis. These liabilities are presented in the General Long-term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2002.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**3. PROPERTY TAXES:**

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

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

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

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

The CRIM advances to the municipality an estimated amount of the basic property tax levied on nonexonerated property tax for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the CRIM is recorded as property taxes revenues in the Municipality's General Fund. The CRIM issued the final liquidation noting that the collections exceeded advances by approximately \$ 717,237. Such amount was included as intergovernmental revenues in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**4. MUNICIPAL LICENSE TAXES:**

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

The tax rates are as follows:

Financial institutions	1.50%
Other organizations within municipal area	0.30%
All other organizations	0.50%

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

**5. INTERGOVERNMENTAL:**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**6. PROPERTY AND EQUIPMENT:**

The Municipality is in the process of organizing and identifying all real and personal property, through physical inventories, and determining their valuation. Once this process is completed, the Municipality will determine its investment in property and equipment for recording in the General Fixed Assets Account Group, and inclusion in the general purpose financial statements. Presently, it is not practical to determine the amount invested in property and equipment.

**7. GENERAL OBLIGATION BONDS:**

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

Balance at July 1, 2001	\$ 18,359,000
Debt issued	-
Principal retirements	<u>(792,895)</u>
 Balance at June 30, 2002	 <u>\$ 17,566,105</u>

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1980 Series	1-1-04	\$ 58,000	5.0 %	\$ 6,000
1995 Series	7-1-09	4,765,000	6.1 % to 7.7 %	3,195,000
1996 Series	7-1-20	5,105,000	4.7 % to 6.6 %	4,660,000
1996 Series	1-1-20	27,000	4.5 %	22,000
1998 Series	7-1-02	345,000	6.0% to 7.5%	95,000
1998 Series	7-1-12	825,000	6.0 % to 7.5 %	720,000
1999 Series	7-1-24	4,590,000	7.0 % to 7.5 %	4,450,000
1999 Series	7-1-04	425,000	7.0 % to 8.0 %	275,000
1999 Series	7-1-17	3,840,000	7.0 % to 7.5 %	3,615,000
2000 Series	1-1-20	550,000	4.5%	<u>528,105</u>
 Total general obligation bonds				 <u>\$17,566,105</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**7. GENERAL OBLIGATION BONDS (CONTINUED):**

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

Year ended June 30.	Total
2003	\$ 863,000
2004	824,000
2005	887,000
2006	848,000
2007	919,000
Thereafter	13,225,105
Total	\$ 17,566,105

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

**8. NOTE PAYABLE:**

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

Balance at July 1, 2001	\$ 345,000
Payments during the current year	(15,000)
Balance at June 30, 2002	\$ 330,000

Note payable at June 30, 2001 is as follows:

Description	Maturity Date	Original amount	Range of Interest rates	Balance June 30, 2002
Special Loan	7-1-16	\$ 400,000	6.7 % - 8.0 %	\$ 330,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**8. NOTE PAYABLE ( CONTINUED ) :**

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

<u>Year ended June 30.</u>	<u>Total</u>
2002	15,000
2003	15,000
2004	15,000
2005	15,000
2006	15,000
Thereafter	<u>255,000</u>
Total	<u>\$ 330,000</u>

**9. DEBT SERVICE FUND:**

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

**10. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**10. RETIREMENT PLAN (CONTINUED):**

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**10. RETIREMENT PLAN (CONTINUED):**

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

**Defined Contribution Plan**

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

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

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002 recorded as pension expenditures was approximately \$ 440,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2002.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**10. RETIREMENT PLAN (CONTINUED):**

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

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

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2002 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**11. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

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

**12. LANDFILL OBLIGATIONS:**

The Municipality of Guayama owns and operates a solid waste landfill. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2002, the Municipality has not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure costs.

**13. COMMITMENTS AND CONTINGENCIES:**

**A. Federal financial assistance programs:**

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2002, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**14. BEGINNING FUND BALANCES (DEFICIT) RESTATEMENT:**

The beginning Fund Balances (Deficit) for General, Special Revenue and Capital Projects Funds have been restated by \$1,193,106, \$235,666 and \$2,601,993, respectively, to properly present the previously reported fund balance at June 30, 2001. The restatement is mainly due to the cancellation of interfund transactions from prior years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S DEPARTMENT OF AGRICULTURE</b>			
Pass-through Commonwealth of Puerto Rico			
Department of Education:			
Child Care and Adult Food Program	10.558		799,347
Pass-through Puerto Rico Aqueduct and Sewer Authority:			
Water and Waste Disposal Systems for Rural Communities	10.760		<u>204,431</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>1,003,778</b></u>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Direct Program:			
Public Safety and Community Policing Grant – Universal Hiring Grant	16.710		<u>228,128</u>
<b>Total U.S. Department of Justice</b>			<u><b>228,128</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Section 8 – Housing Choice Voucher	14.871		786,604
Pass-through Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant			
State Block Grant Program	14.228	B-94-FD-26	84,136
State Block Grant Program	14.228	B-95-FD-26	62,782
State Block Grant Program	14.228	B-96-FD-26	14,321
State Block Grant Program	14.228	B-97-FD-26	36,000
State Block Grant Program	14.228	B-98-FD-26	23,542
State Block Grant Program	14.228	B-99-FD-26	52,804
State Block Grant Program	14.228	B-00-FD-26	127,842

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
State Block Grant Program	14.228	B-01-FD-26	664,021 <u>1,065,448</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>1,852,052</b></u>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544		<u>50,530</u>
<b>Total U.S. Federal Emergency Management Agency</b>			<u><b>50,530</b></u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through Commonwealth of Puerto Rico Administration for Children and Families:			
Head Start	93.600	02-CH-0483-34	9,972,702
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Library Services and Technology Grant	N/A		<u>3,434</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>9,976,136</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 13,110,624</b></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

**1. BASIS OF PRESENTATION:**

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

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

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

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$12,026,149	\$1,084,475	\$13,110,624
Non federal programs Expenditures	<u>251,917</u>	<u>1,240,287</u>	<u>1,492,204</u>
Total expenditures in the general purpose financial statements	<u>\$12,278,066</u>	<u>\$2,324,762</u>	<u>\$14,602,828</u>



Certified Public Accountants / Management Advisors

**López-Vega, CPA, PSC**

Member of:

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

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

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

We have audited the general purpose financial statements of the **Municipality of Guayama** as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Guayama's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Guayama's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **02-01** through **02-03**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items **02-01** and **02-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Guayama** in a separate letter dated December 20, 2002.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2002

Stamp No. 1853984 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

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

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

**Compliance**

We have audited the compliance of the **Municipality of Guayama** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The **Municipality of Guayama's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Guayama's** management. Our responsibility is to express an opinion on the **Municipality of Guayama's** compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Guayama's** with the Head Start Program, regarding the earmarking requirements related to the administrative cost limits (finding **02-14**), nor were we able to satisfy ourselves as to the **Municipality of Guayama's** compliance with those requirements by other auditing procedures.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Guayama's** compliance with the requirements of Head Start Program regarding the earmarking requirements related to the administrative cost limits,, the **Municipality of Guayama** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-04** through **02-13**, and **02-15** through **02-22**.

Internal Control Over Compliance

The management of the **Municipality of Guayama** 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 Guayama's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

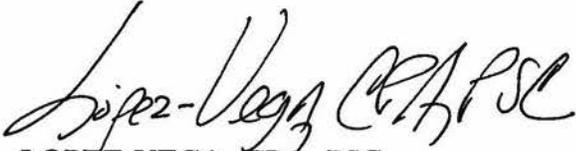
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Guayama's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **02-04** through **02-22**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **02-04** through **02-06**, **02-11**, **02-12**, **02-14**, **02-21** and **02-22** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Guayama** in a separate letter dated February 25, 2003.



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

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
February 25, 2003

Stamp No. 1853985 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2002**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:	<b>Qualified</b>		
Internal control over financial reporting:			
Material weakness identified?	Yes	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported
Noncompliance material to financial statements noted?	Yes		No X

**Federal awards**

Internal Control over major programs:			
Material weakness identified?	Yes	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported
Type of auditors’ report issued on compliance for major programs:	<b>Unqualified, except Qualified for Head Start Program (CFDA No. 93.600)</b>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
14.871	Section 8 Housing Choice Voucher
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs	<b>\$ 300,000</b>		
Auditee qualified as low-risk auditee?	Yes	X	No X

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-01</b>
<b>Requirement</b>	<b>Equipment and real property management</b>
<b>Statement of Condition</b>	During our examination of the Municipality's property records we noted that the procedures followed to record and account for real estate property are inadequate to assure that all assets are properly recorded and accounted for.
<b>Criteria</b>	The Federal Regulations states that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that Municipality should maintain updated property accounting records.
<b>Cause of Condition</b>	There is no internal control procedure implemented in order to assure that property register includes all real estate inventory.
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control of the accountability regarding property transactions.
<b>Recommendation</b>	The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real property and equipment as well as Construction in progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information. The employee in charge of Municipal Property should maintain daily communication with the Purchase Department of the Municipality and with the Federal Programs employee in charge of the property and equipment in order to assure that all property and equipment acquired during the year is properly recorded in the subsidiary ledger.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality contracted a consulting firm during the fiscal year 2002-03 to implement the GASB # 34 requirements. Part of the scope of work is to update the inventory of the equipment and real property.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-02</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure costs.
<b>Criteria</b>	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract the necessary professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference 02-03

Requirement Payroll and Related Liabilities – Payroll Preparation and Timekeeping

Statement of Condition We performed a payroll test and examined a sample of 60 personnel files noting the following:

- a. One (1) employee's time assistance card did not agree with the accumulated vacation card.
- b. In two (2) employee files the gross wage rate stated in the Notifying of Nomination Form did not agree with the gross wage rate included in the payroll for the period ended June 30, 2002.
- c. In three (3) cases the employee position per payroll did not agree with employee's file.
- d. In seven (7) cases the vacations accrued as of 6/30/02 prepared by Human Resources Department did not agree with the list of Accrued Compensated Absence (Vacations and Sick Leave) as of 6/30/02.
- e. In five (5) cases the sick leave accrued as of 6/30/02 does not agree with the list of Accrued Compensated Absence (Vacations and Sick Leave) prepared by Human Resources Department as of 6/30/02. *Balance are on date - 6/30/02*
- f. In one (1) case we did not find an employee in the list of Accrued Compensated Absence (Vacations and Sick Leave) prepared by Human Resources Department as of 6/30/02. *No tiene balance*

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.

Cause of Condition There is no internal control procedure implemented to assure the correctness of accrued vacation and sickness balances.

Effect of Condition The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II -- Financial Statements Findings

**Finding Reference** 02-03 (Continued)

**Recommendation** We recommended that the Municipality should establish procedures to assure that compensated absence cards are accurately prepared based on the information obtained from the time assistance cards duly certified by the employee and the supervisor and to maintain internal control procedures to assure that gross salary per employee used for payroll preparation purposes is the gross salary authorized for such employee.

**Questioned Costs** None

**Management Response** The Municipality's Mayor gave instructions to the Human Resources Department Director to prepare a plan to update all the personnel files. This plan includes a preparation of a checklist in order to ascertain that all documents required by law are included in the files.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-04</b>
<b>Program</b>	<b>Community Development Block Grant - State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	<p>During our Davis Bacon Act test for the Community Development Block Grants - State's Program, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. We noted that the contractor or subcontractor did not submit all the required certified payrolls for the project 00-FD-26-002 and the project 98-FD-26-004 on a weekly basis.</li><li>b. We noted that the Labor Standard Enforcement Inspector did not monitor the contract payrolls for compliance with prevailing wage rates</li></ul>
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR, Part 570.603.
<b>Cause of Condition</b>	The Municipality did not apply monitoring procedures to test applicable contractors with respect to compliance with Davis-Bacon Act.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24 CFR, Part 570.603
<b>Recommendation</b>	We recommend the management to apply monitoring procedures, including obtaining contractor's and if applicable subcontractor's weekly payrolls to be reviewed weekly by responsible municipal employee.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-05</b>
<b>Program</b>	<b>Community Development Block Grant – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico Office of Commissioner of Municipal Affairs</b>
<b>Requirement</b>	<b>Cash Management / Activities Allowed or Unallowed</b>
<b>Statement of Condition</b>	We realized the Cash Management Test and after our procedures were performed we noted that the Program maintained an excessive average cash balance in books. The Program with this excess, opened two Certificates of Deposits amounting \$ 72,988, which represents an activity not eligible under the CDBG State Program. Such Certificates of Deposit earned interests of \$454.37.
<b>Criteria</b>	24 CFR, Subpart I, Section 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and disbursements made by the Municipality.
<b>Cause of Condition</b>	The Municipality’s cash management internal controls procedures failed to assure that funds requested to the pass-through grantor were disbursed in accordance with Program regulation.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR, Subpart I, Section 570.489 (c).
<b>Recommendation</b>	We recommend to the Municipality Management to maintain its cash management internal control procedures to assure compliance with the cash management requirement.
<b>Questioned Costs</b>	\$ 454.37
<b>Management Response</b>	As of the issuance day of this Report, the Program cancelled the Certificates of Deposit. The Municipality Management concurs with the finding related to cash management. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-06</b>
<b>Program</b>	<b>Community Development Block Grant - State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs</b>
<b>Requirement</b>	<b>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	<b>Section II - Financial Statements Findings - Finding Reference 02-01</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-07</b>
<b>Program</b>	<b>Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment</b>
<b>Statement of Condition</b>	During our contract provision test we noted the following situations: <ul style="list-style-type: none"><li>a. Four (4) contracts did not include a provision for granting access to GAO or other federally agency, to books, documents, etc.</li><li>b. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act.</li><li>c. Three (3) contracts did not include a provision for compliance with the Copeland “Anti-Kickback” Act.</li><li>d. Four (4) contracts did not include a provision for retention of all required records for three years.</li><li>e. Four (4) contracts did not include a provision about contractor debarment and suspension certification.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate monitoring procedures to detect the exclusion of certain contract clauses.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
<b>Recommendation</b>	We recommend the management to update contract model according with the federal requirements.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-08</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs</b>
<b>Requirement</b>	<b>Allowable Cost – Cost Principles</b>
<b>Statement of Condition</b>	<p>During our disbursement test of the Community Development Block Grant – State’s Program we noted the following situations:</p> <ul style="list-style-type: none"><li>a. Four (4) disbursement vouchers did not have all supporting documents stamped as paid.</li><li>b. On thirteen (13) disbursement vouchers there was no evidence of the requisitions.</li><li>c. One (1) cancelled check was not available for our examination.</li><li>d. On twelve (12) disbursement vouchers there was no evidence to support if the purchase order was issued before the receiving of goods or services.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, Subpart C, Part 85.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation, Subpart C, 24 CFR 85.20 (b) (6), provisions regarding allowable cost.
<b>Recommendation</b>	We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the related payments are made.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-08 (Continued)**

**Questioned Cost**        **None**

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>02-09</b>
<b>Program</b>	<b>Community Development Block Grant – State (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs (OCAM)</b>
<b>Requirement</b>	<b>Procurement</b> <i>Carmen Escobar ✓</i>
<b>Statement of Condition</b>	As part of our procurement procedures test, we examined the bidding process of all the items tested in the compliance test. We noted the following exceptions: <ul style="list-style-type: none"><li>a. Three (3) of the auction files examined did not include the certified mail letter sent to the not adjudged bidder. <i>Const. Reinolfo</i></li><li>b. Four (4) of the auction files examined did not include evidence of Performance and Payment Bond. <i>Conrad</i></li><li>c. Two (2) of the auction files examined did not include evidence of General Liability Insurance. <i>Documentos de Contratos</i></li></ul>
<b>Criteria</b>	Article 10.006 (a) of State Act Number 81 of August 30, 1991 states that all adjudgement will be notified to each bidder by certified mail. Also, Article 10.007 (a) y (b) establishes that all files should have the evidence and documentation required by this Law or by any other law or regulation that rules the administrative and fiscal municipal procedures, including, evidence of the internal pre-audit of the disbursements.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure that the bidding process is properly documented.
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control of the bidding procedures.
<b>Recommendation</b>	The Municipality should properly document the procedures followed in the evaluation of the proposals and in the final determination. The Municipality should implement a checklist to be used for each auction file to assure the completeness of the required documentation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-09 (Continued)**

**Questioned Costs**      **None**

**Management Response**      **The Municipality will continue to strength the internal control procedures in order to assure compliance with this requirement.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-10</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Allowable Costs/Cost Principles</b>
<b>Statement of Condition</b>	<p>During our disbursement test, we examined a sample of seventy-two (72) disbursement vouchers. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none"><li>a. In two (2) cases the disbursement vouchers were not available for our examination.</li><li>b. In one (1) case the disbursement voucher did not have all supporting documents stamped as paid.</li><li>c. In nine (9) cases the cancelled checks were not available for our examination.</li><li>d. In one (1) case the disbursement voucher did not contain all the required signatures.</li><li>e. In seven (7) cases the disbursement voucher did not have evidence of the receiving report or the certification of the Municipality's employee who received the goods or services.</li><li>f. In three (3) disbursement vouchers there was no evidence that the Municipality obtained at least three (3) quotations or realized formal bids for these purchases.</li><li>g. In three (3) disbursement vouchers there was no evidence of original invoices.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 45, Subpart C, Part 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-10 (Continued)</b>
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, 85.20 (b) (6), provisions regarding allowable cost.
<b>Recommendation</b>	We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures before the check issuance.
<b>Questioned Costs</b>	\$ 95,268
<b>Management Response</b>	The Municipality will continue to strength the internal control procedures in order to assure compliance with this requirement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-11</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Allowable Costs/Cost Principles</b>
<b>Statement of Condition</b>	<p>We performed the In-kind test and examined a sample of three months. The following will summarize the exception noted:</p> <p>The Municipality included in their Local In-Kind Contribution the salary and fringe benefits costs of various municipal employees, which were not providing service to the Program during the Audit period due to resignation or license without compensation.</p>
<b>Criteria</b>	<p>OMB Circular A-87 has established that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Also, OMB Circular A-102 has established that costs borne by non-Federal grants funds should be allowable (comply with OMB Circular A-87) to be counted as matching or cost sharing. OMB Common Rule Subpart C 24 (d) state the if a third party donated supplies, the contribution will be valued at the market value of the supplies at time of donation.</p>
<b>Cause of Condition</b>	<p>There was not an effective communication between the Municipality's Human Resources Department and the Accounting Division of the Head Start Program. The Municipality did not maintain adequate controls to assure that the contribution will be recorded at the fair market value of the supplies at the time of donation.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-11 (Continued)</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with OMB Circular A-87 and OMB Circular A-102.
<b>Recommendation</b>	<p>We recommend to the management that on a monthly basis the Human Resources Department should send to the Head Start Program a written certification stating the salary and fringe benefits of each municipal employee that provide services to the Head Start Program.</p> <p>We also recommend that the Municipality should implement controls and procedures in order to assure accurate accounting records are maintained and current and complete disclosure of financial results are presented in the financial reports. Also, we recommend that the Municipality should implement procedures in order to assure that the contribution will be recorded at fair market value of the supplies at the time of donation.</p>
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality concurs with this finding and will implement the auditor recommendation in order to comply with this requirement.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-12</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through Sate – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. The program maintained an excessive average cash balance in books of \$18,312.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate cash management procedures in order to request funds to the Administration for Children and Families only for immediate needs.
<b>Effect of Condition</b>	The Municipality requested funds in excess of immediate needs and for that reason it's not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
<b>Recommendation</b>	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the Administration for Children and Families and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-13</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees.
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
<b>Cause of Condition</b>	The Municipality did not apply monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.
<b>Recommendation</b>	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractors weekly payrolls to be reviewed weekly by responsible Municipal Employee. Also, interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) in order to establish the degree of compliance and the nature and extend of violations, if any.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality shall apply all monitoring system procedures developed in order to ascertain compliance with regulations.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-14</b>
<b>Program</b>	<b>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services</b>
<b>Requirement</b>	<b>Matching, Level of Effort, Earmarking – Administrative Cost Limits</b>
<b>Statement of Condition</b>	The Accounting System maintained for Head Start Program financial activities did not provide for the classification of financial transactions between administration and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percentage (15%) administrative costs limit.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal controls to assure the accountability of all transactions in accordance with Federal regulations.
<b>Effect of Condition</b>	Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs, activities allowed and unallowed and earmarking.
<b>Recommendation</b>	We recommend the Municipality's Management to modify the Computerized Accounting System chart of accounts in order to create separate accounts for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-15</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Matching, Level of Effort, Earmarking -Matching</b>
<b>Statement of Condition</b>	During our matching requirements test, we noted differences between the amounts of the in-kind contribution registered in the General Ledger and the supporting documents for the in-kind contribution for the months October, 2001, January, 2002 and May, 2002.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 1301.20 states that the Municipality is required to contribute at least twenty percent (20%) of the cost of the program through cash or in kind contribution. Also, OMB Common Rules, Subpart C, 45 CFR 92.20 (b)(1), requires that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.
<b>Cause of Condition</b>	The Municipality recorded the monthly in-kind contributions based on estimates instead of actual in-kind contributions.
<b>Effect of Condition</b>	The Municipality could be noncompliant with the matching requirement imposed through grant agreement because it did not maintain actual information regarding matching contributions.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control procedures in order to maintain adequate and accurate accounting records.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The management concurs with our recommendation and expects to correct the situation as soon as possible.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-16</b>
<b>Program</b>	<b>Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through Sate – Commonwealth of Puerto Rico Administration for Children and Families (ADFAN)</b>
<b>Requirement</b>	<b>Special Test-Licensing Requirement</b>
<b>Statement of Condition</b>	<p>In our Special Test-Licenses Verification for fifteen (15) centers used by Head Start we noted the following exceptions:</p> <ul style="list-style-type: none"><li>a. In one (1) case the Fire Department license was expired.</li><li>b. In two (2) cases the Health Department license presented were expired. Also, in two (2) cases the center presented deficiencies in the Health Department Inspection Checklist.</li><li>c. In one (1) case the Health Department license was expired.</li><li>d. The Administration for Children and Families license was expired in three (3) centers.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 45, Subpart C, Section 1306.30 (c), states that the facilities used by Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and Local requirements concerning licensing.</p>
<b>Cause of Condition</b>	<p>The Municipality did not establish procedures to assure that Head Start centers maintain actualize licenses from the Administration for Children and Families.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with 45 CFR, Subpart C, Section 1306.30 (c).</p>
<b>Recommendation</b>	<p>The Municipality should establish routine visits to the different centers in order to assure that the centers are in very good conditions. Such conditions are necessary to comply with the licensing requirement. We also recommend that the Municipality should review the Centers files to assure completeness of the required documentation and perform periodically follow-up procedures in order to update such files.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-16 (Continued)**

**Questioned Costs**      None

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-17</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility of individuals</b>
<b>Statement of Condition</b>	<p>We performed an eligibility test and examined a sample of forty (40) participant's files noting the following situations:</p> <ul style="list-style-type: none"><li>a. Twenty five (25) participant files did not include a General Release Form to allow the PHA to obtain information from third parties.</li><li>b. In twenty two (25) participant files there was no evidence that the PHA provided assistance to the applicants and to the participants in the annual income recertification a "Privacy Act Notice".</li><li>c. Thirteen (15) participant files did not contain several release forms to allow the PHA to obtain information forms third parties, signed by the head of household spouse or by any members of the family composition who is at least eighteen (18) years of age.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, requires the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.</p> <p>Code of Federal Regulations 24, Subpart B, Section 5.212 (b) states that all assistance applicants shall be provided with a Privacy Act Notice at the time of application. Also, all participants shall be provided with a Privacy Act notice at each annual income recertification.</p>
<b>Cause of Condition</b>	<p>The Federal Program Department does not maintain adequate monitoring to assure that the participant files include all required documentation and releases required by federal agencies.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212 (b), 5.230 and 982.516.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-17 (continued)</b>
<b>Recommendation</b>	We recommend the Program to establish monitoring procedures to assure that all participant's files include all documentation required by federal agencies.
<b>Questioned Costs</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-18</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Reasonable Rent</b>
<b>Statement of Condition</b>	During our Reasonable Rent test we found the following exceptions:  a. The determination of reasonable rent (Reasonable Rent Certification) was not duly documented in twenty (20) participant files examined. The certification included only one comparable unit from units, which are not participants of the program, to determine that the rent to owner is reasonable.
<b>Criteria</b>	Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f) (7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
<b>Cause of Condition</b>	The Federal Program Department did not maintain adequate procedures to determine if the rent paid to the owners was reasonable.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.54 (d) (15), 982.158 (f) (7) and 982.507.
<b>Recommendation</b>	We recommend that the Federal Program Department establish adequate controls to assure that the rent paid to the owners was reasonable.
<b>Questioned Costs</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-19</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Housing Quality Standards Inspections and Housing Quality Standards Enforcement</b>
<b>Statement of Condition</b>	<p>During our examination of forty (40) participant files we noted the following situations:</p> <ul style="list-style-type: none"><li>a. Nine (9) participant files did not indicate if the corrections of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection were completed. If the requirements were not done, the Municipality did not stop the HAPs.</li><li>b. Two (3) participant files did not indicate if the PHA inspector sent to the participant or owner a letter with the deficiencies found.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 establish that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.</p>
<b>Cause of Condition</b>	<p>Management does not maintain adequate monitoring procedures to assure that adequate follow up was realized by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcement.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-19 (Continued)</b>
<b>Requirement</b>	<b>Special Test – Housing Quality Standards Inspections and Housing Quality Standards Enforcement</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.404.
<b>Recommendation</b>	We recommend management to improve monitoring procedures to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-20</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Performance Reporting</b>
<b>Statement of Condition</b>	The Municipality answers a (yes) in the items 1(a), 2(b), 4, 6 and 11 of the SEMAP Report and we found exceptions during our audit related to those requirements.
<b>Criteria</b>	Code of Federal Regulations 24, CFR, Section 985.3 states that under SEMAP, PHAs must submit an annual certification, Form HUD-52648 (OMB No. 2577-0215), to HUD concerning their compliance with program requirements under 14 indicators of performance. Finally, HUD will realize on site visits and verify the Independent Auditors Annual Audit Reports to assure the compliance with this requirement.
<b>Cause of Condition</b>	The Municipality does not maintain adequate monitoring procedures to assure the compliance with the answers detailed in the SEMAP Report submitted to HUD.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 985.3.
<b>Recommendation</b>	We recommend to the Municipality to improve internal controls and monitoring procedures to assure that the program comply with federal regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-21</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2002. There is no evidence of the last time that a Utility Allowance Schedule was actualized.
<b>Criteria</b>	Code of Federal Regulations 24, Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review the utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
<b>Cause of Condition</b>	The Municipality did not follow the procedures established to review utility rate data each year.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.517.
<b>Recommendation</b>	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-22</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized the Cash Management Test and after our procedures were performed we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the program maintained an average cash balance in books of approximately \$241,251.08. Also, HUD deducted \$117,302 overpayment corresponding to the current year. In addition, we noted that for twelve (12) months the leasing rate was under 87% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances. At June 30, 2002, the cash balance in book was \$282,775.43; \$117,302 of these funds was from HUD overpayment during the fiscal year 2001-02, and \$31,482 was from operating reserve at June 30, 2002, as determined in the year end closing report.
<b>Criteria</b>	OMB Common Rules, Subpart C, Section 85.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
<b>Recommendation</b>	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-05	14.228	<u>The Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees</u>  Situation still prevails. See current year Finding # 02-04.
<i>OK</i> 01-06	14.228	<u>Failure to timely submit quarterly reports</u>  Full corrective action was taken.
01-07	14.228	<u>Contracts without required clauses</u>  Situation still prevails. See current year Finding # 02-07
01-08	93.600 14.221	<u>Unallowable Activities - Interfund loans</u>  Full corrective action was taken.
<i>OK</i> 01-09	93.600	<u>Unallowable matching share costs recorded</u>  Situation still prevails. See current year Finding # 02-11
<i>N/A</i> 01-10	93.600	<u>Financial reporting failures</u>  Full corrective action was taken.
<i>OK</i> 01-11	93.600	<u>Centers operating without licenses required</u>  Situation still prevails. See current year Finding # 02-16
<i>N/A</i> 01-12	14.228	<u>No appropriate documentation on auction files</u>  This situation was partially corrected. The Municipality improved substantially the completeness of the documentation in the auction files, but certain situations prevail. These situations are detailed in the current year Finding # 02-17.
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GUAYAMA**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-02	14.228	<u>Failure to timely submit quarterly reports</u>  Full corrective action was taken.
00-04	93.600 14.228 14.221	<u>Unallowed activities.</u>  Full corrective action was taken.
99-4	14.228	<u>Failure to timely submit quarterly reports</u>  Full corrective action was taken.
99-6	93.600 14.228 14.221 83.544	<u>Unallowable Activities - Interfund loans</u>  Full corrective action was taken.