

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GUAYANILLA

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Guayanilla** as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 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 Guayanilla**, 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
March 18, 2002

Stamp No. 1785269 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$84,463	\$704,396		\$34,849			\$823,708
Cash with fiscal agent	1,344,536	298,958	\$623,865	721,622			2,988,981
Intergovernmental receivables	286,618						286,618
Municipal license taxes receivable	1,495						1,495
Federal grants receivable		63,144					63,144
Due from other funds		234,055					234,055
Other receivables	11,135						11,135
Property and equipment					\$21,091,385		21,091,385
Amount available in Debt Service Fund						\$623,865	623,865
Amount to be provided for retirement of general long-term debt						8,193,461	8,193,461
Total assets and other debits	\$1,728,247	\$1,300,553	\$623,865	\$756,471	\$21,091,385	\$8,817,326	\$34,317,847
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$785,594	\$139,022		\$4,500			\$929,116
Due to other funds	169,382			64,673			234,055
Due to other governmental entities	904,393					\$4,521,926	5,426,319
Deferred municipal license tax revenues	704,253						704,253
Deferred federal grant revenues		663,307					663,307
General obligation bonds						2,651,000	2,651,000
Notes payable						630,000	630,000
Accrued compensated absences						1,014,400	1,014,400
Total liabilities	2,563,622	802,329		69,173		8,817,326	12,252,450
Fund equity:							
Investment in general fixed assets					21,091,385		21,091,385
Fund balances:							
Reserved for encumbrances	64,194						64,194
Reserved for debt service			623,865				623,865
Unreserved:							
Designated for specific fund purposes		498,224		687,298			1,185,522
Undesignated (Deficit)	(899,569)						(899,569)
Total fund equity	(835,375)	498,224	623,865	687,298	21,091,385		22,065,397
Total liabilities and fund equity	\$1,728,247	\$1,300,553	\$623,865	\$756,471	\$21,091,385	\$8,817,326	\$34,317,847

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30,2001**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$1,627,192		\$267,176		\$1,894,368
Municipal license taxes	629,818				629,818
Licenses and permits	265,597				265,597
Intergovernmental	3,023,387	\$1,398,854		\$62,100	4,484,341
Rent of property	32,681				32,681
Fines and penalties	1,195				1,195
Interest	32,475				32,475
Federal grants		3,299,522			3,299,522
Miscellaneous	93,236	9,474		2,796	105,506
Total revenues	<u>5,705,581</u>	<u>4,707,850</u>	<u>267,176</u>	<u>64,896</u>	<u>10,745,503</u>
EXPENDITURES					
Current:					
General government	4,635,086	672,449			5,307,535
Public safety	313,902	24,435			338,337
Public works	2,248,933	148,879			2,397,812
Public health and sanitation	280,585				280,585
Welfare	276,618	484,038			760,656
Recreation	305,099	259,747			564,846
Human services					0
Principal retirement	56,250		90,000		146,250
Interest	28,036		44,263		72,299
Capital outlays	19,313	2,988,321		136,770	3,144,404
Total expenditures	<u>8,163,822</u>	<u>4,577,869</u>	<u>134,263</u>	<u>136,770</u>	<u>13,012,724</u>
Excess (deficiency) of revenues over (under) expenditures	(2,458,241)	129,981	132,913	(71,874)	(2,267,221)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes issuance	1,300,000	280,000		715,000	2,295,000
Total other financing sources (uses)	<u>1,300,000</u>	<u>280,000</u>		<u>715,000</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(1,158,241)	409,981	132,913	643,126	27,779
Fund balances (deficit) beginning, as restated	<u>322,866</u>	<u>88,243</u>	<u>490,952</u>	<u>44,172</u>	<u>946,233</u>
Fund balances (deficit), ending	<u>(\$835,375)</u>	<u>\$498,224</u>	<u>\$623,865</u>	<u>\$687,298</u>	<u>\$974,012</u>

See accompanying notes to general purpose financial statements.

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

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$1,430,777	\$1,453,455	\$22,678	\$292,448	\$267,176	(\$25,272)
Municipal license taxes	1,055,000	628,323	(426,677)			
Licenses and permits	502,500	265,597	(236,903)			
Intergovernmental	2,898,966	3,023,387	124,421			
Rent of property	120,000	32,681	(87,319)			
Fines and penalties	2,000	1,195	(805)			
Interest	40,000	21,340	(18,660)			
Miscellaneous	300,000	93,236	(206,764)			
Total revenues	<u>6,349,243</u>	<u>5,519,214</u>	<u>(830,029)</u>	<u>292,448</u>	<u>267,176</u>	<u>(25,272)</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
General government	3,276,919	4,085,171	(808,252)			
Public safety	289,607	314,580	(24,973)			
Public works	1,774,007	1,569,750	204,257			
Public health and sanitation	280,586	280,586				
Welfare	285,711	276,618	9,093			
Recreation	309,948	307,494	2,454			
Capital outlays	46,715	19,797	26,918			
Debt service:						
Principal retirement	56,250	56,250		247,138	90,000	157,138
Interest	29,500	28,036	1,464	45,310	44,263	1,047
Total expenditures and encumbrances	<u>6,349,243</u>	<u>6,938,282</u>	<u>(589,039)</u>	<u>292,448</u>	<u>134,263</u>	<u>158,185</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		(1,419,068)	(1,419,068)		132,913	132,913
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		64,194				
GAAP adjustments to revenues		186,367				
GAAP adjustments to expenditures		(1,289,734)				
Proceeds from operational bond issuance		1,300,000				
Fund balances (deficit) beginning, as restated		<u>322,866</u>			<u>490,952</u>	
Fund balances (deficit), ending		<u>(\$835,375)</u>			<u>\$623,865</u>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Guayanilla** (the Municipality) was established in 1833. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

A. Financial reporting entity:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

B. Basis of presentation:

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

Governmental fund types:

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

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

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

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

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

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 GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

C. Basis of accounting:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

E. Budgetary data (continued):

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

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

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

F. Inventories:

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

G. Property and equipment:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

H. Cash and cash equivalents:

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

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

J. Compensated absences:

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

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

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

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

K. Insurance:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

L. Total columns (memorandum only):

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

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

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

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Puerto Rico Electric Power Authority (PREPA)	\$ 262,536
Municipality of Yauco	267,573
Puerto Rico Aqueduct and Sewer Authority	187,977
General Services Administration	165,219
Department of Labor	<u>21,088</u>
Total	<u>\$ 904,393</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

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

Municipal Revenue Collection Center	\$ 4,058,242
Department of Labor	284,199
Municipality of Yauco	<u>179,485</u>
Total	<u>\$ 4,521,926</u>

3. PROPERTY TAXES:

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

Tax rates are 8.08% for real property and 6.08% 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 1.25% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the advances were less than actual collections by \$173,737. Such amount was included as an intergovernmental receivable in the General Fund.

4. MUNICIPAL LICENSE TAXES:

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

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

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

5. INTERGOVERNMENTAL:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

5. INTERGOVERNMENTAL (CONTINUED):

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

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 823,708
Certificates of deposit (90 days or less)	<u> -</u>
 Total cash and cash equivalents	 <u><u> \$ 823,708</u></u>

7. DEBT SERVICE FUND:

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

8. GENERAL FIXED ASSETS:

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

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$3,106,429	\$ -	\$ -	\$ 3,106,429
Building and Improvements	8,644,632	1,009,353		9,653,985
Other Improvements	160,525	160,545		321,070
Machinery and Equipment	3,651,348	11,396		3,662,744
Construction in Progress	<u>3,054,863</u>	<u>1,292,294</u>	<u> -</u>	<u>4,347,157</u>
 Total	 <u><u>\$ 18,617,797</u></u>	 <u><u>\$ 2,473,588</u></u>	 <u><u> -</u></u>	 <u><u>\$ 21,091,385</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2000	\$ 671,000
Debt issued	2,015,000
Principal retirements	(90,000)
Adjustments and/or Reclassifications	<u>55,000</u>
Balance at June 30, 2001	<u>\$ 2,651,000</u>

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1983 Series	1-1-08	\$ 285,000	9.50% - 10.63%	\$ 157,000
1987 Series	1-1-11	194,000	5.00%	121,000
1988 Series	1-1-13	270,000	5.00%	183,000
1994 Series	7-1-08	260,000	5.00% - 7.61%	175,000
1998 Series	7-1-23	715,000	5.00% - 8.00%	715,000
2001 Series	7-1-25	1,300,000	5.00% - 7.50%	<u>1,300,000</u>
Total general obligation bonds				<u>\$ 2,651,000</u>

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

Year ended June 30	Total
2002	\$ 82,000
2003	95,000
2004	99,000
2005	101,000
2006	110,000
Thereafter	<u>2,164,000</u>
Total	<u>\$ 2,651,000</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

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

Balance at July 1, 2000	\$ 405,000
Debt issued	280,000
Payments during the current year	(56,250)
Adjustments\Reclassifications	<u>1,250</u>
Balance at June 30, 2001	<u>\$ 630,000</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1996 Series	7-1-06	600,000	5.09% - 8.00%	\$ 350,000
19958Series	7-1-05	280,000	5.00% - 8.00%	<u>280,000</u>
Total notes payable				<u>\$ 630,000</u>

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

Year ended June 30	Total
2002	\$ 110,000
2003	115,000
2004	125,000
2005	135,000
2006	145,000
Thereafter	<u>-</u>
Total	<u>\$ 630,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED)

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

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

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

Defined Contribution Plan

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ **201,108**. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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

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

12. 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.

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Property Tax Debt – as of June 30, 1993:

As part of the requirements of Law No.80 of August 30, 1991, Municipal Revenue Collection Center Law, the property tax records of Puerto Rico Department of Treasury has been audited in order to determine the amount of receivable or debt of the Municipality of Guayanilla as of June 30, 1993. As a result of this audit a \$2,421,452 debt was determined for non-exonerated property tax. The Municipality has engaged in a negotiation process with the Municipal Revenue Collection Center (CRIM) for the total debt liquidation based on the critical financial position of the Municipality of Guayanilla. The ultimate outcome on this matter cannot be determined.

C. 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.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning fund balances (deficit) of the General, Special Revenue, Debt Service and Capital Projects Funds have been restated by \$2,913,243 to properly present the previously reported fund balances as of June 30,2000. The restatement is mainly due to the reclassification of debts from current to long term liabilities, correction of errors in the interfund transactions account balances, and errors in the beginning cash balances due to nominal accounts transactions (revenues and expenditures) not recorded during the fiscal year ended June 30,2000.

15. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On July 2, 2001, the Municipal Assembly approved an increase of property tax rates from 8.38% for real property and 6.38% for personal property to 8.58% and 6.58%, respectively. Amended property tax rates will be effective on July 1, 2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Rental Voucher Program	14.855		491,769
Pass-through the Commonwealth of Puerto Rico Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	97-FD-27 98-FD-27 99-FD-27 00-FD-27	1,692,577
Total U.S. Department of Housing and Urban Development			2,184,346
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety and Community Policing Grants	16.710		1,203
Pass-through the Commonwealth of Puerto Rico - Department of Justice:			
Local Law Enforcement Block Grant	16.592	Not Available	23,232
Total U.S. Department of Justice			24,435

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1136-DR-PR 1247-DR-PR	<u>766,701</u>
Total U.S. Federal Emergency Management Agency			<u>766,701</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Safe and Drug-Free Schools - State Grants	84.185	Not Available	<u>47,726</u>
Total U.S. Department of Education			<u>47,726</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care & Development Block Grant	93.575	Not Available	<u>276,314</u>
Total U.S. Department of Health and Human Services			<u>276,314</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$3,299,522</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 3,299,522
Non federal programs expenditures	<u>1,278,347</u>
Total expenditures in the general purpose financial Statements	<u>\$ 4,577,869</u>



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

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

We have audited the general purpose financial statements of the **Municipality of Guayanilla** as of and for the year ended June 30, 2001, and have issued our report thereon dated March 18, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Guayanilla'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 Guayanilla'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 Guayanilla's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-05**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item **01-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Guayanilla** in a separate letter dated March 18, 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
March 18, 2002

Stamp No.1785270 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

Compliance

We have audited the compliance of the **Municipality of Guayanilla** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Guayanilla'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 Guayanilla's** management. Our responsibility is to express an opinion on the **Municipality of Guayanilla'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 Guayanilla'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 Guayanilla's** compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Guayanilla** with the Public Assistance Grant, regarding the Activities Allowed or Unallowed, Allowable Cost/Cost Principles, Special Tests-Project Accounting, and Reporting requirements (findings **01-17** and **01-18**), nor were we able to satisfy ourselves as to the **Municipality of Guayanilla'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)

As described in items **01-07, 01-08, 01-10, 01-11** and **01-12** in the accompanying schedule of findings and questioned costs, the **Municipality of Guayanilla** did not comply with requirements regarding Cash Management, Eligibility, Special Test – Selection from the Section 8 Waiting List, Special Test – Housing Quality Standards Inspections and Enforcement, and Special Test – Reasonable Rent that are applicable to its Section 8 Rental Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Guayanilla** to comply with requirements applicable to that program.

Because of the significance of the matters discussed in the third paragraph of this report regarding the **Municipality of Guayanilla** compliance with the Public Assistance Grant requirements regarding the Activities Allowed or Unallowed, Allowable Cost/Cost Principles, Special Tests-Project Accounting, and Reporting, the scope of our work was not sufficient to enable us to express, and we do not express, and opinion on the compliance with the requirements applicable to that Program.

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 Guayanilla** compliance with Activities Allowed or Unallowed, Allowable Cost/Cost Principles, Special Tests-Project Accounting, and Reporting requirements of Public Assistance Grant, as discussed in the third paragraph of this report, and except for the noncompliance described in the preceding paragraph, the **Municipality of Guayanilla** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30,2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-06, 01-09, and 01-13 through 01-16**.

Internal Control Over Compliance

The management of the **Municipality of Guayanilla** 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 Guayanilla'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.



**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)**

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 Guayanilla's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-06** through **01-18**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-06** through **01-08**, **01-10**, **01-11**, and **01-14** through **01-18** 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 Guayanilla** in a separate letter dated March 18, 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
March 18, 2002

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

Material weakness identified? Yes X No

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

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

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

Type of auditors’ report issued on compliance for major programs: **Unqualified for 14.228
Qualified for 14.855
Disclaimer for 83.544**

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:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant – State’s Program
14.855	Section 8 Rental Voucher Program
83.544	Public Assistance Grant Program

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

Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-01
Requirement	Fixed\ Capital Assets and Expenditures - Subsidiary Ledger
Statement of Condition	During our examination of the Municipality's property records and reports we noted the following deficiencies: (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger and Construction in Progress account was not maintained in the General Ledger and Property Subsidiary Ledger.
Criteria	The federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedures implemented to assure the completeness of the property records and reports.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.
Recommendation	We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference 01-02

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference **01-03**

Requirement **Cash Receipts\Revenue, Receivable - Collections**

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

- a. One (1) deposit was realized before of the issuance of the receipt.
- b. In one (1) instance a Official Collector contained four Assistance Collector receipts on cash and check but the Official Receipt was marked as if the collection was received on cash.
- c. We found no evidence of construction permits or agreement to realize the tax computation on two (2) taxpayers files for excise taxes. In addition, on two (2) files we could not recalculate how the Municipality determined the excise tax to be paid by taxpayers.
- d. In thirteen (13) files the municipal license tax certificates were not available for examination.
- e. One (1) case the audited financial statements were not available for examination.
- f. In two (2) cases we noted that the time extension to submit Municipal License Tax has expired and the Municipality did not receive the audited financial statements.
- g. One (1) case we could not reconcile the total Volume of Business as per return to the amount reported in the Audited Financial Statements.
- h. In two (2) cases we could determine the concept of cash collection.

Criteria The Section Four (4) of the Chapter three (3) of the Revised Regulation on Basic Standards for Municipalities of Puerto Rico establishes that the Official Treasurer should realize a daily revision of amount collected and amounts debited in bank to assure that the revenues has been duly accounted and processed in the period of collection.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-03 (Continued)
	<p>The Chapter (9) of the Revised Regulation on Basic Standards for Municipalities of Puerto Rico state that the Municipality should maintain adequately documented taxpayers files, including a set of financial statements for taxpayers with a volume of business in excess of one million dollars, municipal license taxes certificate, income tax return, etc.</p>
Cause of Condition	<p>The internal control procedures fail to assure that receipts was issued at time of collection, and to assure that taxpayer files are properly documented and daily collections are duly accounted.</p>
Effect of Condition	<p>The Municipality is not complying with regulations stated in The Section Four (4) of the Chapter three (3) and Chapter (9) of the Revised Regulation on Basic Standards for Municipalities of Puerto Rico.</p>
Recommendation	<p>Municipality should implement the following procedures in order to avoid these situations in a future:</p> <ul style="list-style-type: none">a. Establish procedures to assure that excise tax files include evidence of Construction permits.b. Assign an employee to review that all Municipal License Tax taxpayers who requested a time extension in order to ascertain that they submitted the audited financial statement as required by law. In case of noncompliance with the time extension the Municipality should proceed to eliminate the 5% discount taken and apply interest and penalties.c. Assign an employee to revise all sales volume taxpayers' files to verify if such files include all documents required by law.
Questioned Costs	None
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-04
Requirement	Expenditures for Goods and Services and Accounts Payable-Purchasing and Receiving
Statement of Condition	<p>We performed a cash disbursement test and examined thirty (30) disbursement vouchers related to general fund expenditures. The following summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. In two (2) cases we not found evidence about receiving of the goods or services.b. In one (1) case we noted that the supplier quotation was used as invoice to prepare the disbursement.c. In one (1) case we noted that the purchase order was not pre-numbered and dated.d. In three (3) cases we found no evidence of three (3) quotations.e. In one (1) case we found no invoice in the disbursement voucher.f. In four (4) cases the Finance Director did not sign the purchase order.g. In Two (2) cases the services was rendered before the purchase order was issued.
Criteria	<p>The Revised Regulation on Basic Standards for Municipalities of Puerto Rico establish in the Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control in order to assure that all transactions include all the required documentation.</p>
Effect of Condition	<p>The Municipality is in not compliance with Revised Regulation on Basic Standards for Municipalities of Puerto Rico.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-04
Recommendation	We recommend that the Municipality should improve its internal control procedures in order to assure that disbursement vouchers contain all the necessary supporting documents before making the payments. Also, we recommend that the Municipality reinforce its procedures to assure that at least three quotations are requested for purchases of goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed these limits.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

Finding Reference	01-05
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. The compensated absences report prepared by the Human Resources Department to support the compensated absences long-term debt as of June 30, 2001 did not include the accumulative vacation and sick leave balances of four (4) employees. In addition, for six (6) employees the amount detailed in the report did not match with the accumulative vacation card.b. One (1) employment file was not available for our examination.
Criteria	<p>The Revised Regulation on Basic Standards for Municipalities of Puerto Rico establish, Chapter IV, Section 18-(1), establish that the Municipality will prepare the payroll based on the employee files.</p>
Cause of Condition	<p>There is no internal control procedure implemented to assure the correctness of accumulative compensated absences balances.</p>
Effect of Condition	<p>Municipality did not maintain an adequate control over the personnel files and the compensated absences cards.</p>
Recommendation	<p>We recommend that the Human Resources Department should establish procedures to assure that compensated absences cards are accurately prepared based on the information obtained from the time assistance cards duly certified by the employee and his supervisor. Also, employee files should be safeguarded appropriately.</p>
Questioned Costs	<p>None</p>
Management Response	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-06
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Financial Administration - Standards for Financial Management Systems
Statement of Condition	During the fiscal year ended June 30, 2001, the Municipality did not maintain accounting records for the Section 8 Rental Program financial activities, which adequately identify the source and application of funds provided for financially assisted activities. Such records did not contain all information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Also, such records were not sufficient to permit accurate, current and complete disclosure of the financial results of financially assisted activities, and 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 restrictions and prohibition of Section 8 laws and regulations.
Criteria	Code of Federal Regulations 24, Subpart C, Part 85.20.
Cause of Condition	The Municipality did not maintain effective controls procedures and accountability over grant funds.
Effect of Condition	Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Part 85.20.
Recommendation	We recommend that the Municipality should implement controls and procedures over Section 8 Rental Program financial activities in order to assure the accountability of all financial transactions. Also, should keep the accounting records in accordance with Generally Accepted Accounting Principles and the Program staff will be adequately trained.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-07
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures were performed we found the following exceptions: a. The Municipality did not maintain effective control procedures to minimize the time elapsed between the transfer of funds from US Treasury Department and disbursements of it. b. The Municipality maintained an excessive average monthly cash balance of \$ 244,709.
Criteria	Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7) states that units of general local governments shall use procedures to minimize the time elapsed between the transfer of funds by the US Treasury Department and disbursements by grantees and subgrantees.
Cause of Condition	The Municipality did not maintain effective control procedures over cash management.
Effect of Condition	The Municipality did not comply with the Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7).
Recommendation	We recommend to the Municipality Management to periodically compare actual Program cash requirements to the funds advanced from US Treasury Department and prepare and submit a revised Requisition to reduce monthly advances.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-08
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Eligibility Test
Statement of Condition	<p>We performed an eligibility test and examined a sample of fifty-seven (57) participant files. The following will summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. In fifty-seven (57) cases the head of household did not sign the release of employment information.b. In thirty-nine (39) cases the head of household did not sign a release of Privacy Act Notice.c. On thirty-nine (39) cases the head of household did not sign a release form to allow the Public Housing Authority (PHA) to obtain information from third parties.d. In twenty (20) cases the members of the family with 18 years or older did not sign the Privacy Act Notice included in the participant's file.e. In twenty (20) cases the member of the family with 18 years or older did not sign the release from for employment information.f. In twenty (20) cases the members of the family with 18 years or older did not sign the release forms to allow the PHA to obtain information for third party.g. In forty-seven (47) cases we could not find the application form in the files.h. On seven (7) cases there was no adequate evidence of family income.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-08 (Continued) i. In three (3) cases we did not find evidence of the actualized photo, birth certificate and Social Security Card Copy of new family member. j. In three (3) cases the Social Security Card Copy was not available for examination
Criteria	Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that as a condition of admission or continued occupancy, it require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federal prescribed general release form for employment information and a Privacy Act Notice.
Cause of Condition	The Municipality does not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24, Sections 2.212, 5.230, and 5.601 through 5.617.
Recommendation	We recommend the Program to establish the following procedures: a. Provide an application form to be filed by the participant and sign by all family members who are at least 18 years old. b. Provide a Federal prescribed general release form for employment information and a Privacy Act Notice to be signed by all members of the family who are at least 18 years old. c. Implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-08 (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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-09
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Reporting – Financial Reporting
Statement of Condition	During our examination of financial reporting requirements we noted the following exception: a. We noted that the Voucher for Payment of Annual Contribution and Operation Statement for Voucher Program were submitted late to HUD.
Criteria	OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), require 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. Also, Subpart C, 24 CFR 85.20 (b) (2), state that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records, and therefore, such situation did not permit on time submission of the financial reports.
Effect of Condition	Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1 through 3).
Recommendation	We recommend to the Municipality's Management to implement controls procedures over Section 8 Rental Program financial activities in order to assure the accountability of all financial transactions, including accounting records in accordance with Generally Accepted Accounting Principles. Such action should permit the preparation of accurate, current, and complete financial reports.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-10
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	During our waiting list test we found the following: <ul style="list-style-type: none">a. In twenty-six (26) cases we could not determine if the participants were selected from the top of the waiting list.b. During the audited period the Municipality waiting list was not maintained as required by Program regulations.
Criteria	Code of Federal Regulations 24, Sections 5.410, 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The Municipality does not maintain adequate internal control procedures to assure that the waiting list has included all information required by Federal regulation and to assure that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Sections 5.410, 982.54 (d) and 982.201 through 982.207.
Recommendation	We recommend to the Municipality Management to follow admission procedures established in the administrative plan. Also, we recommend Management to maintain control procedures to maintain a waiting list with all information required by Federal regulation This control must permit proper tracing of participant's selected to waiting list maintained in order to assure the selection from the top of the waiting list.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-11
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and Enforcement
Statement of Condition	<p>During our verification of fifty-seven (57) participant files we noted the following deficiencies:</p> <ul style="list-style-type: none">a. On twenty-seven (27) cases were found that the unit failed HQS Inspections and the Municipality did not re-inspect such units in order to ascertain that the deficiencies were corrected.b. We found no evidence of a quality control re-inspection in fifty-seven (57) examined tenant's files.c. In one (1) case the inspector did not sign the Inspection Checklist Form.d. In one (1) case we found no the evidence of inspection during the year.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also, the PHA must prepare a unit inspection report. 24 CFR, Sections 982.158(d) and 982.404 establishes 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 of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-11 (Continued) 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.
Cause of Condition	Management does not have adequate internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented in participant files. Also, the Municipality does not maintain adequate internal control procedures to assure documented enforcement of the HQS.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) and 982.404.
Recommendation	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented. Also, the Municipality should strengthen their procedures to assure the enforcement with HQS by the owners.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-12
Program	Section 8 Rental Voucher Program (CFDA No. 14.855); U.S. Department of Housing and Urban Development
Requirement	Special Test – Reasonable Rent
Statement of Condition	During our verification of fifty-seven (57) participant files we noted that the determination of reasonable rent (reasonable rent certification) was not documented in the participant files.
Criteria	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.
Cause of Condition	The Federal Program Department did not maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507.
Recommendation	We recommend that the Federal Program Department implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participant's files.
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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-13
Program	Community Development Block Grant - State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	We realized the Cash Management test and after our procedures we found the following exceptions: a) On six (6) cases the funds received were not disbursed in a reasonable time to minimize the time elapsed between the receipt of funds and its disbursements.
Criteria	OMB Common Rule, Subpart I, Section 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and disbursements made by the Municipality.
Cause of Condition	The Municipality's cash management internal controls procedures fail to assure that funds requested to the pass-through grantor were disbursed in accordance with Program regulation.
Effect of Condition	Municipality is not in compliance with OMB Common Rule, Subpart I, Section 570.489 (c).
Recommendation	We recommend to the Municipality Management to maintain its cash management internal control procedures to assure compliance with the cash management requirement.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-14
Program	Community Development Block Grant – State’s Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test on projects 97-FD-27-003, 99-FD-27-002 and 98-FD-27-001, we noted that the Municipality did not apply monitoring procedures to assure contractors compliance with Davis-Bacon Act.
Criteria	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR, Part 570.603.
Cause of Condition	Municipality did not apply monitoring procedures to test applicable contractors with respect to compliance with Davis-Bacon Act.
Effect of Condition	Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24 CFR, Part 570.603
Recommendation	We recommend management to apply monitoring procedures, including obtaining contractor's and if applicable subcontractor's weekly payrolls to be reviewed weekly by responsible municipal employee and interviewing contractor's and if applicable subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
Questioned Costs	None
Management Response	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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 01-15

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

Requirement Equipment and Real Property Management

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-16
Program	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 Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through State – Office of Governor Authorized Representative (GAR)
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that: six (6) contracts did not include a provision for compliance with termination by grantee for default; six (6) contracts did not include a provision for compliance with executive order 11246 “Equal Employment Opportunity; six (6) contracts did not include a provision for compliance with sections 103 and 107 of the Contracts Work Hours and Safety Standards Act; six (6) contracts did not include provisions for compliance with Energy Policy and Conservation Act; six (6) contracts did not include a provision for compliance with “Anti-kickback” (Contracts for construction and repairs); three (3) contracts did not include a provision for compliance with the Clean Air Act and Water Act and six (6) contracts did not include a provision for compliance for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations. Code of Federal Regulations 44, Subpart C, Section 13.36 (I) (1-13), states that sub-grantee’s contracts must contain provisions described in paragraph (I) of this section.
Cause of Condition	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contracts include all the provisions required by Federal Statues, executive orders and implementing regulations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-16 (Continued)
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart C, Part 570.489 (g), Section 85.36 (I) (1-13), and 44 CFR, Subpart C, Section 13.36 (I) (1-13).
Recommendation	We recommend management to update the contract model according with the federal requirements.
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-17
Program	Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through State – Office of Governor Authorized Representative (GAR)
Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles Special Tests-Project Accounting
Statement of Condition	During our activities allowed or unallowed, allowable cost, and special tests, we noted that the Municipality did not maintain files by project worksheet (PW) as required by the Office of Governor Authorized Representative (GAR), to support that costs incurred were in performance of eligible works, that approved works were completed, that the projects were in compliance with the provisions of the FEMA-State Agreement and that payments charged to projects were made in accordance with OMB A-102 Common Rule.
Criteria	OMB Circular A-87 has established that any cost allocable to a particular Federal award must be adequately documented. Code of Federal Regulation 44, 13.20 (b) (6) has established that transactions posted in the accounting records must be supported by such source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant award documents, and others. Also, 44 CFR 13.20 (b) (3) requires to grantees and sub-grantees to maintain effective control and accountability over grants and sub-grants cash, real and personal property, and other assets, to assure them be used solely for authorized purposes.
Cause of Condition	There is not internal control procedures implemented to assure compliance with OMB Circular A-87 and 44 CFR 13.20 (b) (3) (6) and the Office of Governor Authorized Representative (GAR) requirements.
Effect of Condition	Municipality's is not in compliance with OMB Circular A-87, 44 CFR 13.20 (b) (3) (6), and the Office of Governor Authorized Representative (GAR) requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-17 (Continued)
Recommendation	We recommend to the Municipality Management to assign an employee to prepare files by each Project that contains all documents required by the Office of Governor Authorized Representative (GAR). Also, the Municipality should follow procedures described in the Public Assistance Guide issued by U.S. Federal Emergency Management Agency.
Questioned Costs	\$ 766,701
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 GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-18
Program	Public Assistance Grant (CFDA No. 83.544); U.S. Federal Emergency Management Agency; Pass through State - Office of Governor Authorized Representative (GAR)
Requirement	Reporting
Statement of Condition	The Municipality did not provide to us the quarterly progress reports (P-4) required by the Governor's Authorized Representative (GAR) during the fiscal year 2000-2001.
Criteria	Code of Federal Regulations 44, Section 206.204 (f), require to States to submit quarterly financial and progress reports to the Regional Director. The report should describe the status of those projects on which a final payment of the Federal share has not been made to the State and outline any problems or circumstance expected to result in noncompliance with the approved grant conditions. Sub-grantee reporting is as required by the State. Governor's Authorized Representative (GAR) Office requires to Sub-grantee submit to it quarterly progress reports for all projects approved by FEMA.
Cause of Condition	There Municipality control procedures fail to maintain on file evidence about compliance with the reporting requirement.
Effect of Condition	The Municipality cannot prove us compliance with the reporting requirements.
Recommendation	We recommended the Municipality to establish internal control and procedures to maintain a copy of quarterly progress reports (P-4) in its files.
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 GUAYANILLA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2000-III-1	14.228 14.855 14.857 83.544	<u>Reporting, Matching, level of effort and earmarking</u> Full corrective action has been taken for SBGP program. No corrective action has been taken for Section 8 and Public Assistance Grant. The Municipality will implement controls and procedures over Section 8 Program and Public Assistance Grant financial activities in order to assure the accountability of all financial transactions.
2000-III-2	14.228 14.855 14.857	<u>Allowable Cost / Cost Principles; Matching, level of effort and Earmarking</u> Full corrective action has been taken.
2000-III-3	14.228 14.855 14.857	<u>Equipment and Real Property Management</u> No corrective action has been taken. The Municipality will organize a GASB 34 Team composed by municipal employees and contracted professionals (if necessary) in order to actualize real property, personal property and infrastructure inventory to comply with GASB 34 requirements.
2000-III-4	14.228	<u>Cash Management</u> No corrective action has been taken. The Municipality will improve cash management control procedures.
2000-III-5	14.228	<u>Procurement, Suspension and debarment</u> No corrective action has been taken. The Municipality will modify its contract model to include suspension and debarment certification in its