

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

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

GOVERNMENT
MUNICIPALITY OF GUAYANILLA
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF GUAYANILLA

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of 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, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The **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. Also, we were unable to obtain sufficient competent evidential matter related to estimated liability for compensated absences recorded in the general long-term debt account group. Therefore, we do not express an opinion on such amounts included in the general long-term debt account group.

The **Municipality of Guayanilla** did not maintain complete and accurate records of all interfund transactions in the due from and due to accounts balances for the fiscal year 2001-02. Therefore, we do not express an opinion on such amounts presented on the general-purpose financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the estimated liability for compensated absences and the interfund transactions account balances, 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, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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
December 19, 2002

Stamp No. 1854007 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, 2002**

	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	-	\$2,066,460		\$32,524			2,098,984
Cash with fiscal agent	\$53,482	10,539	\$771,622	609,370			1,445,013
Intergovernmental receivables	427,784						427,784
Municipal license taxes receivable	6,999						6,999
Federal grants receivable		349,968		157,048			507,016
Due from other funds	212,166	260,485					472,651
Other receivables	4,300						4,300
Property and equipment					\$21,938,461		21,938,461
Amount available in Debt Service Fund						\$771,622	771,622
Amount to be provided for retirement of general long-term debt						10,323,728	10,323,728
Total assets and other debits	\$704,731	\$2,687,452	\$771,622	\$798,942	\$21,938,461	\$11,095,350	\$37,996,558
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$274,594			\$188,801			\$463,395
Due to other funds	491,708	553,694		39,163			1,084,565
Due to other governmental entities	93,655					\$422,004	515,659
Deferred municipal license tax revenues	664,092						664,092
Deferred federal grant revenues		1,153,204					1,153,204
General obligation bonds						2,800,000	2,800,000
Notes payable						520,000	520,000
Advance property tax debt						6,479,694	6,479,694
Claims and judgments						3,000	3,000
Accrued compensated absences						870,652	870,652
Total liabilities	1,524,049	1,706,898		227,964		11,095,350	14,554,261
Fund equity:							
Investment in general fixed assets					21,938,461		21,938,461
Fund balances:							
Reserved for encumbrances	161,018						161,018
Reserved for debt service			771,622				771,622
Unreserved:							
Designated for specific fund purposes		980,554		570,978			1,551,532
Undesignated (Deficit)	(980,336)						(980,336)
Total fund equity(Deficit)	(819,318)	980,554	771,622	570,978	21,938,461		23,442,297
Total liabilities and fund equity	\$704,731	\$2,687,452	\$771,622	\$798,942	\$21,938,461	\$11,095,350	\$37,996,558

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 30,2002**

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	
REVENUES				
Property taxes	\$1,653,508		\$242,300	\$1,895,808
Municipal license taxes	855,477			855,477
Licenses and permits	328,776			328,776
Intergovernmental	3,439,320	\$1,697,700		5,137,020
Rent of property	77,014			77,014
Fines and penalties	880			880
Interest	71,384			71,384
Federal grants	-	1,478,584		\$1,069,341
Miscellaneous	306,122	455		379
Total revenues	<u>6,732,481</u>	<u>3,176,739</u>	<u>242,300</u>	<u>1,069,720</u>
				<u>11,221,240</u>
EXPENDITURES				
Current:				
Mayor and Municipal Assembly	1,080,446			1,080,446
General government	2,498,056	932,703		3,430,759
Public safety	295,198			295,198
Public works	379,509	81,116		460,625
Public health and sanitation	1,780,698			1,780,698
Welfare	47,869	1,083,532		1,131,401
Recreation	198,321			198,321
Human services	-	9,004		9,004
Principal retirement	-		200,250	200,250
Interest	-		120,644	120,644
Capital outlays	98,988	906,417		1,186,040
Total expenditures	<u>6,379,085</u>	<u>3,012,772</u>	<u>320,894</u>	<u>1,186,040</u>
				<u>10,898,791</u>
Excess (deficiency) of revenues over (under) expenditures	353,396	163,967	(78,594)	(116,320)
				322,449
OTHER FINANCING SOURCES (USES):				
Operating transfer from (to) other fund	(395,044)	318,363	76,681	-
Total other financing sources (uses)	<u>(395,044)</u>	<u>318,363</u>	<u>76,681</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(41,648)	482,330	(1,913)	(116,320)
				322,449
Fund balances (deficit) beginning, as restated	(777,670)	498,224	773,535	687,298
				1,181,387
Fund balances (deficit), ending	<u>(\$819,318)</u>	<u>\$980,554</u>	<u>\$771,622</u>	<u>\$570,978</u>
				<u>\$1,503,836</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, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$1,582,524	\$1,582,524	-	\$272,389	\$242,300	(\$30,089)
Municipal license taxes	915,173	861,308	(53,865)			
Licenses and permits	310,831	328,776	17,945			
Intergovernmental	3,491,372	3,439,320	(52,052)			
Rent of property	73,919	77,014	3,095			
Fines and penalties	880	880	-			
Interest	78,014	78,218	204			
Miscellaneous	561,478	306,122	(255,356)			
Total revenues	<u>7,014,191</u>	<u>6,674,162</u>	<u>(340,029)</u>	<u>272,389</u>	<u>242,300</u>	<u>(30,089)</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,082,744	1,132,261	(49,517)			
General government	2,678,344	2,511,553	166,791			
Public safety	295,548	296,134	(586)			
Public works	379,504	367,635	11,969			
Public health and sanitation	1,813,639	1,816,670	(3,031)			
Welfare	47,869	47,869	-			
Recreation	211,959	200,854	11,105			
Capital outlays	100,021	103,136	(3,115)			
Debt service:						
Principal retirement				117,000	200,250	(83,250)
Interest			-	68,050	120,644	(52,594)
Total expenditures and encumbrances	<u>6,609,628</u>	<u>6,476,012</u>	<u>133,616</u>	<u>185,050</u>	<u>320,894</u>	<u>(135,844)</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	<u>404,563</u>	<u>198,150</u>	<u>(206,413)</u>	<u>87,339</u>	<u>(78,594)</u>	<u>(165,933)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfer from (to) other fund	(404,563)	(395,044)	9,519	86,200	76,881	(9,519)
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses	<u>-</u>	<u>(196,894)</u>	<u>(196,894)</u>	<u>173,539</u>	<u>(1,913)</u>	<u>(175,452)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		96,927				
GAAP adjustments to revenues		58,319				
GAAP adjustments to expenditures						
Proceeds from operational bond issuance						
Fund balances (deficit) beginning, as restated		<u>(777,670)</u>			<u>773,535</u>	
Fund balances (deficit), ending		<u>(\$819,318)</u>			<u>\$771,622</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, 2002

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, 2002

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

B. Basis of presentation:

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

Governmental fund types:

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

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

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

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

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

Account groups:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

C. Basis of accounting:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

**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, 2002

**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, 2002

**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, 2002 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the 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, 2002

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

J. Compensated absences:

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

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

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

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

K. Insurance:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

L. Total columns (memorandum only):

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

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

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

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:

General Services Administration

\$93,655

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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, 2002. The following is the balance of these accounts:

Department of Labor	\$ 118,576
Puerto Rico Aqueduct and Sewer Authority	123,944
Municipality of Yauco	<u>179,484</u>
Total	<u>\$ 422,004</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, 2002

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 collections were more than actual advances by \$244,721. Such amount was included as an intergovernmental receivable in the General Fund. Also the Municipality has a \$6,479,694 property tax advance debt balance from prior years (\$4,058,242 owed to CRIM and \$2,421,452 owed to Treasury Department); such balance was included as a long term debt in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002.

4. MUNICIPAL LICENSE TAXES:

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

The tax rates are as follows:

Financial institutions	1.50%
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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

5. INTERGOVERNMENTAL:

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

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

6. 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.

7. GENERAL FIXED ASSETS:

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

Description	Balance July 1, 2001	Additions and adjustments	Retirements and adjustments	Balance June 30, 2002
Land	\$ 3,106,429	\$ -	\$ -	\$ 3,106,429
Building and Improvements	9,653,985	350,000		10,003,985
Other Improvements	321,070			321,070
Machinery and Equipment	3,662,744	497,076		4,159,820
Construction in Progress	4,347,157		-	4,347,157
Total	<u>\$ 21,091,385</u>	<u>\$ 847,076</u>	<u>\$ -</u>	<u>\$ 21,938,461</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

8. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2001	\$ 2,651,000
Debt issued	-
Principal retirements	(89,000)
Adjustments and/or Reclassifications	238,000
	238,000
Balance at June 30, 2002	\$ 2,800,000

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1983 Series	1-1-08	\$ 285,000	9.50% - 10.63%	\$ 141,000
1987 Series	1-1-11	194,000	5.00%	111,000
1988 Series	1-1-13	270,000	5.00%	172,000
1994 Series	7-1-08	260,000	5.00% - 7.61%	160,000
1998 Series	7-1-23	715,000	5.00% - 8.00%	705,000
2001 Series	7-1-25	1,300,000	5.00% - 7.50%	1,280,000
	Bond proceeds in process of disbursement			
1995 Series		238,000	4.5%	231,000
Total general obligation bonds				\$ 2,800,000

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

Year ended June 30	Total
2003	\$ 104,000
2004	108,000
2005	110,000
2006	120,000
2007	129,000
Thereafter	2,229,000
Total	\$ 2,800,000

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, 2002

9. NOTES PAYABLE:

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

Balance at July 1, 2001	\$ 630,000
Debt issued	-
Payments during the current year	(111,250)
Adjustments\Reclassifications	<u>1,250</u>
Balance at June 30, 2002	<u>\$ 520,000</u>

Notes payable at June 30, 2002 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1996 Series	7-1-06	600,000	5.09% - 8.00%	\$ 290,000
1995 Series	7-1-05	280,000	5.00% - 8.00%	<u>230,000</u>
Total notes payable				<u>\$ 520,000</u>

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

Year ended June 30	Total
2003	\$ 115,000
2004	125,000
2005	135,000
2006	<u>145,000</u>
Total	<u>\$ 520,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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:

Years of Service	Participant Age	Pension Benefits
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, 2002

10. 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, 2002

10. 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, 2002 recorded as pension expenditures were approximately \$ **184,931**. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

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, 2002

10. 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.

11. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

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

12. 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, 2002

12. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigations, the Municipality has reported liabilities of \$3,000 in the general long term debt account group for anticipated unfavorable judgments. The amount presented in the general long term debt group of account represents the amount of estimated as probable liability, which will require future available financial resources for its payments. The administration believes that the ultimate liability, if any, would not be significant.

13. BEGINNING FUND BALANCES (DEFICIT) RESTATEMENT:

The beginning fund balances (Deficit) of the General and Debt Service Funds have been restated to properly present the previously reported fund balances as of June 30, 2001:

Description	General	Debt Service Fund
Beginning Fund Balances (Deficit) at July 1, 2001	(\$835,375)	\$623,865
Reclassification of debt (AAA) from current liability to General Long Term Debt Account Group	57,705	
CAE Final Liquidation F/Y 99-00		158,553
CAE Final Liquidation F/Y 00-01		(8,883)
Beginning Fund Balances (Deficit) at July 1, 2001, as restated	<u>(\$777,670)</u>	<u>\$773,535</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

14. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

- a. 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.
- b. On September 11, 2002 the Municipal Assembly authorized through the Resolution number twenty one (21) the issuance of a special obligation note in the amount of \$820,000. The interest rate of this debt is 12%. The note will be repaid with operational funds. Repayment of the bond is schedule for July 2003 through July 2009.
- c. On September 11, 2002 the Municipal Assembly authorized through the Ordinances number six (6) the issuance of a special obligation Bond in the amount of \$62,500. The interest rate is 4.50%. Repayment is schedule for January 2003 through January 2015.
- d. On September 12, 2002 the Municipal Assembly authorized through the Ordinances number seven (7) the issuance of a special obligation Bond in the amount of \$875,000. The interest rate is 12%. Repayment is schedule for July 2003 through July 2027. The note will be repaid with operational funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program			
Water and Waste Disposal Loans and Grants	10.770		1,069,341
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child And Adult Care Food Program	10.558	Not Available	18,342
Total U. S. Department of Agriculture			1,087,683
 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		616,042
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	98-FD-27 99-FD-27 00-FD-27 01-FD-27	399,338
Total U.S. Department of Housing and Urban Development			1,015,380

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico – Department of Justice:			
Local Law Enforcement Block Grants Program			
	16.592		15,417
Total U.S. Department of Justice			15,417
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico - P. R. Highway and Transportation Authority:			
Federal Transit: Capital Investment Grants			
	20.500	Not Available	95,192
Total U.S. Department of Transportation			95,192
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant			
	83.544	1247-DR-PR	1,646
Total U.S. Federal Emergency Management Agency			1,646
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico – Administration for Children and Families:			
Community Services Block Grant			
	93.569	Not Available	19,256

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Child Care & Development Block Grant	93.575	Not Available	<u>478,424</u>
Total U.S. Department of Health and Human Services			<u>497,680</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,712,998</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of 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 and Capital Projects Funds in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$1,643,657	\$1,069,341	\$2,712,998
Non federal programs Expenditures	<u>1,369,115</u>	<u>116,699</u>	<u>1,485,814</u>
Total expenditures in the general purpose financial statements	<u>\$3,012,772</u>	<u>\$1,186,040</u>	<u>\$4,198,812</u>



López-Vega, CPA, PSC

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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor
and the Municipal Legislature
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, 2002, and have issued our report thereon dated December 19, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, we were unable to obtain sufficient competent evidential matter related to estimated liability for compensated absences recorded in the general long-term debt account group. Also, we were unable to audit interfund transactions because the Municipality did not maintain complete and accurate records of all interfund transactions in the due from and due to accounts balances for the fiscal year. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of 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 **02-01** through **02-07**.

**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 **02-01**, **02-03** and **02-04** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are 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 December 19, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 19, 2002

Stamp No. 1854008 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of 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, 2002. 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.

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.

As described in items **02-14, 02-15, 02-17, 02-19** and **02-21** 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 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Guayanilla** to comply with requirements applicable to that program.

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

In our opinion, except for the 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, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-08** through **02-13**, **02-16**, **02-18** and **02-20**.

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.

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 **02-08** through **02-21**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **02-08** through **02-15**, **02-17** through **02-21** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Guayanilla** in a separate letter dated March 25, 2003.



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

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2003

Stamp No. 1854009 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**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

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 except for Section 8 Choice Voucher (14.871) Qualified for		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
14.855	Section 8 Housing Choice Voucher Program
10.760	Water and Waste Disposal Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>		
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, 2002

Section II – Financial Statements Findings

Finding Reference	02-01
Requirement	Fixed\ Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	During our examination of Municipality's property records and reports we noted the following deficiencies: balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; 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 were not maintained in the General Ledger and Property Subsidiary Ledger.
Criteria	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 does 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, 2002

Section II – Financial Statements Findings

Finding Reference	02-02
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's accounting system did not provide updated and complete financial information that presents 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, 2002

Section II – Financial Statements Findings

Finding Reference	02-03
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality’s interfund transactions we noted that the due from and due to transactions account balances included in the general-purpose financial statements for the year ended June 30, 2002 were not reconciled.
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 interfund transactions recorded on its accounting records.
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 and 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, 2002

Section II – Financial Statements Findings

Finding Reference	02-04
Requirement	Financial Reporting – Accounting Records
Statement of Condition	The Municipality has not updated the estimated liability for compensated absences recorded in the general long-term debt account group as part of the Municipality's general-purpose financial statements for the year ended June 30, 2002.
Criteria	<i>GASB Statements No. 16</i> requires a liability for compensated absences should be recorded when future payments for such absences have been earned by employees.
Cause of Condition	The Municipality did not maintain updated compensated absences records for each employee. Therefore, accrued compensated absences balances for each employee were not available for financial statements purposes.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 16</i> requirements.
Recommendation	We recommend that the Municipality should maintain updated information about accrued compensated absences for all employees. Also, we recommend that the Municipality should include in its general-purpose financial statement the compensated absences liability necessary to comply with the <i>GASB Statement No. 16</i> .
Questioned Costs	None
Management Response	The Municipality's 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, 2002

Section II - Financial Statements Findings

Finding Reference	02-05
Requirement	Cash Receipts
Statement of Condition	<p>We performed a cash receipt test and examined a sample of sixty (60) collections. The following summarize the exceptions found:</p> <ul style="list-style-type: none">a. In two (2) cases the cash was received via EFT but the Municipality did not prepare treasurer cash receipt on a reasonable time.b. In nine (9) occasions we found no supporting evidence for collections.c. In three (3) cases the Income Tax returns of the volume sales taxpayers were not available for our examination.d. In one (1) case the cash collected related with the contribution of the parent was erroneously deposited on the Child Care account instead of bank account previously opened for such purpose.
Criteria	<p>The Section Four (4) of the Chapter Three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Collector should realize a daily revision of amount collected and amounts credited in bank by governmental agencies to assure that the revenues has been duly processed in the period of collection.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control over the recording of revenues. Also, the Municipality did not establish effective internal control to assure that revenues were properly documented.</p>
Effect of Condition	<p>The Municipality is not in compliance with Section Four (4) of Chapter Three (3) of the Revised Regulations on Standards for the Municipalities of Puerto Rico.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-05 (continued)**

Recommendation We recommend that the Municipality's Official Collector should promptly receive the bank's notifications of any Credit Memo in order to record it in the revenue register and also record it in a reasonable lapse of time from its collection. Also, we recommend the Municipality that must maintain evidence for all collection received.

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, 2002

Section II - Financial Statements Findings

Finding Reference **02-06**

Requirement **Expenditures for Goods and Services and Account Payables -
Purchasing and Receiving**

Statement of Condition During our examination of the Municipality's procedures related to the purchasing and receiving process we examined seventy-six (76) disbursement vouchers and noted the following situations:

- a. In thirty two (32) disbursement vouchers there were no requisition forms. Also, in fifteen (15) cases the requisitions were not pre-numbered.
- b. In eight (8) disbursement vouchers the invoice was not signed by the supplier.
- c. In one (1) case the disbursement voucher did not contain all the necessary signatures.
- d. In one (1) case the disbursement voucher did not have all supporting documents stamped as paid.
- e. In two (2) cases the disbursement voucher was not committed when executed. A purchase order is issued for each partial payment.
- f. In five (5) cases the purchase order was issued after the receiving of goods or services.
- g. Three (3) quotations were not available for examination in nine (9) disbursement vouchers.
- h. Two (2) disbursement vouchers were not recorded in the correct account.
- i. In two (2) cases the receiving report was not signed by the employee who had knowledge of the receiving of the goods.
- j. In two (2) cases the disbursement voucher did not agree with the cancelled check. Also, the disbursement voucher did not have all supporting documents.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-06 (continued)
	k. In one (1) instance the disbursement voucher was not available for our examination.
	l. In seven (7) instances the cancelled checks were not available for our examination.
Cause of Condition	The Municipality did not establish effective internal controls to assure that all transactions include all the required documentation.
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (IV) that the Finance Director will be responsible to account and realize disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.
Effect of Condition	The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter Four (IV) and Eight (8).
Recommendation	We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchases off 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 that 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, 2002

Section II - Financial Statements Findings

Finding Reference **02-07**

Requirement **Payroll and Related Liabilities - Payroll Preparation and Timekeeping**

Statement of Condition We performed a payroll test and examined a sample of 60 personnel files. The following summarize the exceptions found:

- a. In four (4) employees files the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 30, 2002.
- b. In one (1) case we did not find evidence of gross salary in the employee's file.
- c. In twenty (20) cases the employee's compensated absences cards were not available for our examination.
- d. In nineteen (19) cases the 499 R-4 Form was not duly completed. Also, in four (4) cases the 499 R-4 Form was not available for our examination.
- e. In forty-seven (47) cases the I-9 Form was not duly completed. Also, ten (10) cases the I-9 Form was not available for our examination.
- f. In sixteen (16) cases the employee's time assistance cards were not signed by the employee.
- g. In one (1) case the employee was assigned to one Department but in the payroll report the employee was assigned to other Department.
- h. In nineteen (19) cases the employee's time assistance cards were signed by the employee supervisor.
- i. In nine (9) cases the employee assistance cards were not available for our examination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference	02-07 (continued)
	<p>j. For two (2) employees we noted differences between the sick and regular vacations as per the time assistance card and the sick and regular vacations discounted in the accumulative vacations card.</p> <p>k. In three (3) cases the compensated absences card for the month of June, 2002 did not agree with the compensated absences detail prepared by client.</p> <p>l. We noted that at least fourteen (14) employees were not included in the compensated absence detail prepared by the client.</p>
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.
Cause of Condition	There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.
Effect of Condition	The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.
Recommendation	We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.
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, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-08
Program	Water and Waste Disposal Loans and Grants (CFDA. No. 10.770); U.S. Department of Agriculture
Requirement	Financial Administration – Standard for Financial Management System
Statement of Condition	During our audit we noted that the Municipality did not maintain for the Water and Waste Disposal Loans and Grants Program a set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.
Criteria	Code of Federal Regulations, Subpart C, 7 CFR 3016.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
Cause of Condition	The Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. That situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.
Effect of Condition	The Municipality is not in compliance with Subpart C, 7 CFR, Part 3016.20 (b) (2).
Recommendation	We recommend the Municipality that must implement controls and procedures in order to assure the accountability of all financial transactions.
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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-09
Program	Water and Waste Disposal Loans and Grants (CFDA. No. 10.770); U.S. Department of Agriculture
Requirement	Reporting
Statement of Condition	During our reporting test we could not obtain evidence of the submission by the Municipality of the Form RD 442-2, Statement of Budget, Income and Equity (OMB No. 0575-0015) and the Form RD 442-3, Balance Sheet (OMB No. 0575-0015).
Criteria	Code of Federal Regulation 7, Subpart C, Part 3016.20 (b) (1) states 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.
Cause of Condition	The Municipality did not maintain adequate controls and procedures to assure that the financial and programmatic reports were prepared according to Federal and State Regulations.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulation 7, Subpart C, Part 3016.20 (b) (1), provisions regarding financial reporting.
Recommendation	We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and were prepared in accordance with the required accounting basis.
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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-10
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	<p>We realized the Cash Management test and after our procedures were performed we found the following exceptions:</p> <ul style="list-style-type: none">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.b. The Municipality maintained an excessive average monthly cash balance of \$ 244,709.
Criteria	24 CFR, Subpart I, Section 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and disbursements made by the Municipality.
Cause of Condition	The Municipality's cash management internal controls procedures failed to assure that funds requested to the pass-through grantor were disbursed in accordance with Program regulation.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart I, Section 570.489 (c).
Recommendation	We recommend the Municipality 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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-11
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 project 00-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 570.603.
Cause of Condition	The Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.
Recommendation	We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee, Also, interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) in order to establish the degree of compliance and the nature and extend of violations, if any.
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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-12
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 02-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-13**

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

Requirement **Reporting**

Statement of Condition **During our audit we noted the following situations:**

- a. The Financial Management Quarterly Report as of June 30, 2002 presents disbursements for this quarter of \$75,543 for the project 98-FD-27-001 but the General Ledger did not present disbursements for this quarter. ✓
- b. The Financial Management Quarterly Report as of June 30, 2002 presents revenues for this quarter of \$21,457 for the Administrative Accounts (99-FD-ADM) but the General Ledger did not present revenues for this quarter. ✓
- c. The Financial Management Quarterly Report as of June 30, 2002 presents disbursements for this quarter of \$21,524 for the Administrative Account (99-FD-ADM) but the General Ledger did not present disbursements for this quarter. ✓
- d. The Financial Management Quarterly Report as of June 30, 2002 presents disbursements for this quarter of \$628,437 for the project 99-FD-27-002 but the General Ledger presents total disbursements for this quarter of \$628,351. ✓
- e. The Financial Management Quarterly Report as of June 30, 2002 presents revenues for this quarter of \$49,733 for the Administrative Accounts (00-FD-ADM) but the General Ledger presents revenues for this quarter of \$49,797. ✓

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYANILLA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-13 (continued)**

f. The Financial Management Quarterly Report as of June 30, 2002 presents total disbursements of \$80,725 for the project 00-FD-27-ADM but the General Ledger presents total disbursements of \$87,910 for this project for the quarter ending June 30, 2002

Criteria Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.

Cause of Condition The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.

Effect of Condition The Municipality did not report accurate financial results to the Pass-through Grantor for the quarter ended June 30, 2002.

Recommendation We recommend the Municipality to reconcile differences between the financial quarterly report and the general ledgers before report submission are made to the Pass-through Grantor.

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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-14
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) 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 that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the program maintained an excessive cash balance in books of \$ 119,888. We noted that for four (4) months the program leasing rate was under 95% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances.
Criteria	Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7) requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement made by the grantee.
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's Management to periodically compare actual Program cash requirements to the funds advanced from U. S. 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, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-15
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) 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 forty (40) participant files. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none">a. In nine (9) cases there was no evidence of application form in the participant file.b. In twenty-three (23) participant files the release form to allow the PHA to obtain information from third parties did not contain the minimum information required by the federal regulations.c. In seventeen (17) participant files there was no evidence that the PHA provide to the assistance applicants and to the participants in the annual income recertification a "Privacy Act Notice".d. In fourteen (14) cases the members of the family with 18 years or older did not sign the release forms.e. We noted that in ten (10) participant files the PHA determined the Housing Assistance Payment for the fiscal year 2001-2002 using incomplete supporting evidence of family annual income, evidence of expenses related to deductions from annual income, and evidence of family composition.f. In four (4) cases the files revealed deficiencies in terms of lack of official income sources such as alimony or disability, actual photos (family composition), and copy of social security check or certification.
Criteria	<p>Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-15 (continued) Code of Federal Regulations 24, Subpart B, Section 5.212 (b) states that all assistance applicants shall be provided with a "Privacy Act Notice" at the time of application. All participants shall be provided with a "Privacy Act Notice" at each annual income recertification. Code of Federal Regulations 24, Sections 982.201, 982.515 and 982.516 establish income eligibility and tenant's rent payment calculation requirements. Also, requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and Housing Assistance Payment as necessary.
Cause of Condition	The Federal Program Department does not maintain adequate monitoring to assure that the participant 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 5.212, 5.230 and 982.516.
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.
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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-16
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) 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	The Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1 through 3).
Recommendation	We recommend 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-17
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Selection from the Section 8 Waiting List
Statement of Condition	<p>During our waiting list test we found the following:</p> <ul style="list-style-type: none">a. The program did not maintain a manual book or computer software that could not change the waiting list.b. Eight (8) participants were not included in the waiting list.c. The participant file did not have adequate documentation which allowed us to trace how the participants were selected from the top of the waiting list.d. In sixty-nine (69) cases the application date was not recorded in the waiting list.e. In twenty-one (21) cases the preference was not recorded in the waiting list.
Criteria	Code of Federal Regulations 24, Sections 5.410, 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-17 (continued)
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 the Municipality to follow admission procedures established in the administrative plan. Also, we recommend Management to establish a manual book or a software program to record the applicants or internal control procedures so that the waiting list includes all information as required by Federal regulations. This control must permit proper tracing of participants selected to the 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-18
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting – Special Reporting
Statement of Condition	<p>During our verification of forty (40) participant files we noted the following deficiencies:</p> <ul style="list-style-type: none">a. In one (1) participant file the HUD 50058 Form, Family Report (OMB No. 2577-0083) was not printed and maintained in the participants file.b. In twenty-five (25) cases the HUD 50058 Form, Family Report Form (OMB No. 2577-0083) revealed deficiencies in terms of data entry such as: names, last unit passed, unit address, social security number and date of birth reported incorrectly.
Criteria	<p>Code of Federal Regulation 24, Sec.908, has establish that PHA must submit HUD-50058 Form, Family Report Form (OMB No. 2577-0083), electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, other change of unit for a family, etc.</p>
Cause of Condition	<p>The HUD 50058 Form, Family Report (OMB No. 2577-0083) was not printed and maintained in the participant' file every time there was a change in family composition, family income or other situations that may affect the calculation of the total tenant payment.</p>
Effect of Condition	<p>The Municipality did not maintain evidence of compliance with the Code of Federal Regulation 24, Sec. 908.</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. We recommend that the HUD 50058 Form, Family Report Form (OMB No. 2577-0083) be printed and maintained in the participant file every time there is a change in family composition, family income or other situations that may affect the calculation of the total tenant payment.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-18 (continued)**

- b. Assign an employee to review that the HUD 50058 Form, Family Report Form (OMB No. 2577-0083) to assure that the information submitted electronically to HUD do not contain errors in order to be evaluated correctly by HUD personal.

Questioned Costs None

Management Response The Federal Programs Office will implement controls to assure that applicable documentation of the determination of reasonable rent is maintained in participant's files.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-19
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) 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 forty (40) participant files we noted the following exceptions:</p> <ul style="list-style-type: none">a. On the forty (40) participant files there was no evidence of a quality control re-inspections performed and documented by a program official. The Municipality's management represented to us that during the fiscal year 2001-2002 the Municipality did not perform quality control re-inspections according with the HUD requirement.b. In eleven (11) cases where the correction period had ended no evidence was found to support that the corrections required by PHA were completed.c. In eleven (11) cases we did not find evidence that shows that the PHA property stopped (abated) HAP's or terminated the HAP contract.
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. 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 HAPs contract.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-19 (continued)
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, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-20
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Utility Allowance Schedule
Statement of Condition	The Municipality did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2002. There is no evidence of the last time that an Utility Allowance Schedule was actualized.
Criteria	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The Municipality did not follow the procedures established to review the utility rate data each year.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
Recommendation	The Municipality should evaluate utility allowance rate each year as established in the federal regulations.
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, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-21
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test – Reasonable Rent
Statement of Condition	During our verification of reasonable rent we noted that the determination of reasonable rent (Reasonable Rent Certification) was not available for examination in twenty one (28) 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. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent in effect 60 days before the HAP contract anniversary.
Cause of Condition	The Federal Program Department did not maintain adequate procedures to determine if the rent paid to the owners was reasonable and did not maintain procedures to document the basis for the determination.
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 establishes adequate controls to assure that the rent paid to the owners is reasonable and that 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.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-06	14.855	<u>The Municipality did not maintain accounting records for the Section 8 Rental Program financial activities.</u> Full corrective action has been taken.
01-07	14.855	<u>Cash Management</u> No corrective action has been taken.
01-08	14.855	<u>Eligibility Test-lack of proper documentation (participants records) as required by law and program documents.</u> No corrective action has been taken.
01-09	14.855	<u>Failure to timely submit the Voucher for Payment of Annual Contribution and Operation Statement for Voucher Program</u> No corrective action has been taken.
01-10	14.855	<u>Section 8 Waiting List – Selection from the Waiting List.</u> No corrective action has been taken.
01-11	14.855	<u>Housing Quality Standards Inspections and Enforcement</u> No corrective action has been taken.
01-12	14.855	<u>The determination of reasonable rent (reasonable rent certification) was not documented in the participant files</u> No corrective action has been taken.
01-13	14.228	<u>The funds received were not disbursed in a reasonable time</u> No corrective action has been taken.
01-14	14.228	<u>The Municipality did not apply monitoring procedures to assure</u>

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<u>contractors compliance with Davis Bacon Act.</u>
		No corrective action has been taken.
01-15	14.228	<u>Inadequate Property Records</u>
		No corrective action has been taken.
01-16	14.228 83.544	<u>Procurement and Suspension and Debarment</u>
		1No corrective action has been taken.
01-17	83.544	<u>The Municipality did not maintain files by project worksheet (PW) as required by the Office of Governor Authorized Representative (GAR)</u>
		No corrective has been taken.
01-18	83.544	<u>The Municipality did not provide to us the quarterly progress reports</u>
		No corrective action has been taken.
2000-III-1	14.855 14.857 83.544	<u>Reporting, Matching, level of effort and earmarking</u>
		No corrective action has been taken for Section 8 and Public Assistance Grant.
2000-III-3	14.228 14.855 14.857	<u>Equipment and Real Property Management</u>
		No corrective action has been taken.

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2000-III-4	14.228	<u>Cash Management</u> No corrective action has been taken.
2000-III-5	14.228	<u>Procurement, Suspension and debarment</u> No corrective action has been taken.
2000-III-6	83.544	<u>Allowable Cost / Cost Principles, Reporting</u> No corrective action has been taken.
2000-III-7	14.855 14.857	<u>Special Test and Provisions</u> No corrective action has been taken.