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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE GURABO

AUDITORIA 2002-2003

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**MUNICIPALITY OF GURABO
GURABO, PUERTO RICO**

**GENERAL PURPOSE FINANCIAL STATEMENTS
WITHINDEPENDENT AUDITORS' REPORT THEREON**

JUNE 30, 2003

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**MUNICIPALITY OF GURABO
GURABO, PUERTO RICO**

**GENERAL PURPOSE FINANCIAL STATEMENTS
WITHINDEPENDENT AUDITORS' REPORT THEREON**

JUNE 30, 2003

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MUNICIPALITY OF GURABO, PUERTO RICO

SINGLE AUDIT REPORT

JUNE 30, 2003

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NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITORS' REPORT

To the Gurabo's Honorable Mayor and
Members of the Municipality's Assembly
Gurabo, Puerto Rico

We have audited the accompanying general-purpose financial statements of the **Municipality of Gurabo** as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of **the Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As described in Note 1, the **Municipality of Gurabo** has not maintained complete and adequate records related to the fixed assets of the General Fixed Assets Account Group, specifically for retirements of property, plant and equipment. Accordingly, we were unable to satisfy ourselves as to the fixed assets balance or such all groups amounting to \$30,014,355.

In our opinion, except of the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the general fixed assets balances, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Gurabo** as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT
(Continuation)

In accordance with Government Auditing Standards, we have also issued under separate cover, our report dated January 20, 2004 on our consideration of the **Municipality of Gurabo's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Nieves Velazquez & Co. P.S.C.

January 20, 2004
San Juan, Puerto Rico



CPA Stamp # 1882071 was affixed
to the record copy of this report.

Municipality of Gurabo, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2003

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long Term Debt	
ASSETS AND OTHER DEBITS							
Cash (including \$6,400,424 certificates of deposit)	\$ 3,787,495	1,738,079	-	3,317,366	-	-	8,842,940
Cash with fiscal agent	-	-	1,481,942	1,528,308	-	2,703,737	5,713,987
Property tax receivable	-	-	12,133	-	-	-	12,133
Interest Receivable	-	-	1,189	-	-	-	1,189
Due from other funds	1,627,802	-	-	-	-	-	1,627,802
Due from governmental agencies	414,474	913,007	-	78,862	-	-	1,406,343
Volume of business tax receivable	202,472	-	-	-	-	-	202,472
Property and equipment	-	-	-	-	30,014,355	-	30,014,355
Amount available in debt service fund	-	-	-	-	-	1,310,586	1,310,586
Other debits:							
Amounts to be provided for:							
Payment of general long term debt	-	-	-	-	-	6,123,459	6,123,459
Payment of bonuses and accrued compensated absences	-	-	-	-	-	1,200,211	1,200,211
Payment of litigations	-	-	-	-	-	1,500,000	1,500,000
Payment of debts with governmental agencies	-	-	-	-	-	257,920	257,920
Total assets and other debits	<u>6,032,243</u>	<u>2,651,086</u>	<u>1,495,264</u>	<u>4,924,536</u>	<u>30,014,355</u>	<u>13,095,913</u>	<u>58,213,397</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$ 1,034,518	18,556	-	316,501	-	-	1,369,575
Due to other funds	-	1,384,118	3,547	240,137	-	-	1,627,802
Due to governmental agencies	54,185	87,361	-	-	-	257,920	399,466
Matured bonds and notes	-	-	150,000	-	-	-	150,000
Accrued interest payable	-	-	31,131	-	-	-	31,131
General long term debt	-	-	-	-	-	7,434,045	7,434,045
Accrued for compensated absences	-	-	-	-	-	1,200,211	1,200,211
Litigations	-	-	-	-	-	4,203,737	4,203,737
Deferred revenues	3,034,140	454,991	-	-	-	-	3,489,131
Total liabilities	<u>4,122,843</u>	<u>1,945,026</u>	<u>184,678</u>	<u>556,638</u>	<u>-</u>	<u>13,095,913</u>	<u>19,905,098</u>

(CONTINUES)

Municipality of Gurabo, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2003

	Governmental Fund Types			Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets		General Long Term Debt
(CONTINUED)							
Commitments and contingencies (Note 10)	-	-	-	-	-	-	
Fund Equity:							
Investment in general fixed assets	-	-	-	-	30,014,355	-	30,014,355
Fund balances:							
Designated for debt service	-	-	1,310,586	-	-	-	1,310,586
Reserved for capital projects	-	-	-	4,367,898	-	-	4,367,898
Reserved for other purposes	-	706,060	-	-	-	-	706,060
Reserved for encumbrances	174,984	-	-	-	-	-	174,984
Unreserved	1,734,416	-	-	-	-	-	1,734,416
Total fund equity	1,909,400	706,060	1,310,586	4,367,898	30,014,355	-	38,308,299
Total liabilities and fund equity	\$ 6,032,243	2,651,086	1,495,264	4,924,536	30,014,355	13,095,913	58,213,397

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

Municipality of Gurabo, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2003

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
REVENUES					
Property taxes	\$ 5,619,254	-	535,208	-	6,154,462
Volume of business tax	4,057,528	-	-	-	4,057,528
Licenses and permits	1,598,277	-	-	-	1,598,277
Federal grants & contributions	-	1,225,695	-	1,069,983	2,295,678
Intergovernmental grants	1,025,223	2,288,875	-	2,149,413	5,463,511
Fines and penalties	47,123	-	-	-	47,123
Interest	286,739	355	-	114	287,208
Miscellaneous	674,501	-	-	-	674,501
Total revenues	13,308,645	3,514,925	535,208	3,219,510	20,578,288
EXPENDITURES					
General government	4,521,932	1,778,314	-	-	6,300,246
Public works	2,381,592	794,135	-	-	3,175,727
Health and welfare	896,459	1,218,501	-	-	2,114,960
Public safety	952,852	263,017	-	-	1,215,869
Education and recreation	1,007,933	-	-	-	1,007,933
Sanitation	1,521,460	-	-	-	1,521,460
Debt service:					
Principal	-	-	476,000	-	476,000
Interest	-	-	344,092	-	344,092
Capital expenditures	433,273	-	-	2,146,918	2,580,191
Total expenditures	11,715,501	4,053,967	820,092	2,146,918	18,736,478

(CONTINUES)

Municipality of Gurabo, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2003

	Governmental FundTypes			Totals (Memorandum Only)	
	General	Special Revenue	Debt Service		Capital Project
(CONTINUED)					
Excess of revenues (expenditures) over expenditures (revenues)	1,593,144	(539,042)	(284,884)	1,072,592	1,841,810
Other financing sources (uses):					
Proceeds from debt issuance	-	-	-	755,000	755,000
Transfers in	377,050	-	202,502	-	579,552
Transfers out	(202,502)	(90,687)	(142,901)	(143,462)	(579,552)
Total other financing (uses) sources	174,548	(90,687)	59,601	611,538	755,000
Excess of revenues (expenditures) and other sources (uses) over expenditures (revenues)	1,767,692	(629,729)	(225,283)	1,684,130	2,596,810
Fund balances at beginning of year	(649,371)	1,578,807	1,491,685	2,579,378	5,000,499
Prior period adjustment (Note 13)	791,079	(243,018)	44,184	104,390	696,635
Fund balances(deficiency) at beginning restated	141,708	1,335,789	1,535,869	2,683,768	5,697,134
Fund balances at end of year	\$ 1,909,400	706,060	1,310,586	4,367,898	8,293,944

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

Municipality of Gurabo, Puerto Rico

Statement of Revenues and Expenditures
Budget and Actual - General Fund and Debt Service Fund

Budget Basis
 Year Ended June 30, 2003

	GENERAL FUND			DEBT SERVICE FUND		
	Revised Budget	Adjusted Actual	Variance Favorable (Unfavorable)	Budget	Adjusted Actual	Variance Favorable (Unfavorable)
Revenues						
Property tax	\$ 5,747,673	5,619,254	(128,419)	\$ 716,387	535,208	(181,179)
Volume of business tax	4,099,951	4,057,528	(42,423)	-	-	-
Licenses and permits	1,536,815	1,598,277	61,462	-	-	-
Intergovernmental services	-	-	-	-	-	-
Intergovernmental grants	1,053,618	1,025,223	(28,395)	-	-	-
Property rent	-	-	-	-	-	-
Interest	259,367	286,739	27,372	-	-	-
Landfill revenues	-	-	-	-	-	-
Miscellaneous	720,627	721,624	997	-	-	-
Transfer in	-	377,050	377,050	-	202,502	202,502
Total Revenues	13,418,051	13,685,695	267,644	716,387	737,710	21,323
Expenditures						
General government	5,930,383	4,631,372	1,299,011	-	-	-
Public works	4,251,939	3,795,896	456,043	-	-	-
Health & welfare	897,495	895,613	1,882	-	-	-
Public safety	1,093,577	947,476	146,101	-	-	-
Education & recreation	1,038,789	988,159	50,630	-	-	-
Sanitation	-	-	-	-	-	-
Bonds & notes	-	-	-	321,000	476,000	(155,000)
Interest	-	-	-	395,387	344,092	51,295
Transfer out	205,868	202,502	3,366	-	142,901	(142,901)
Total Expenditures	13,418,051	11,461,018	1,957,033	716,387	962,993	(246,606)
Excess of (expenditures) revenues over (revenues) expenditures	\$ -	2,224,677	2,224,677	\$ -	(225,283)	(225,283)

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

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Gurabo (the Municipality)**, founded in 1815, is a municipality of the Commonwealth of Puerto Rico. It is governed by a Mayor and a 14 members Municipal Assembly elected for a four-year term. **The Municipality** provides services to its residents in the areas of health, welfare, public works, education, public safety, public housing, community development, culture and recreation, and other services.

The accompanying general-purpose financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities. The following is a summary of significant accounting policies:

Financial Reporting Entity

The accompanying basic financial statements include all departments and municipal units that: (1) are under the legal and administrative control of the Mayor and the administrative cabinet, and (2) whose funds are under the custody and control of the Director of Finance of **the Municipality**, as prescribed by Law No. 81 of August 30, 1991, as amended (commonly known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*).

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 (GASB). 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 he 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 evaluation potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Financial Reporting Entity (Continuation)

criteria there are no potential component units, which should be included in the general-purpose financial statements.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounts of **the Municipality** are organized and operate on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The various funds are summarized by type in the accompanying general-purpose financial statements. **The Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Governmental Fund Types

Governmental funds are used to account for **the Municipality's** expendable financial resources and the related liabilities. The measurement focus is upon determination of any changes in financial position. Governmental funds are comprised of:

General Fund

The general fund is used to account for all financial transactions, except those required to be accounted for in another fund.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Governmental Fund Types (Continuation)

Special Revenue Fund

Special revenue fund is used to account for the proceeds of specific revenue sources (other than debt service or capital projects) such as federal grants, that are legally restricted to expenditures for specified purposes.

Debt Service Fund

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

Capital Projects Fund

Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Accounts Groups

Account groups are used to establish accounting control and accountability for **the Municipality's** general fixed assets and the unmatured principal of its general long-term debt and other long-term obligations.

General fixed assets account group – This account group is used to account for all general fixed assets of **the Municipality**, other than those accounted for in the enterprise fund.

General long-term debt account group – This account group is used to account for all long-term debt including bonds, notes, loans and other long-term liabilities, other than those accounted for in the enterprise fund.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting

The basis of accounting determines when **the Municipality** recognizes revenues and expenditures and related assets and liabilities.

Governmental fund types follow the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Principal revenue sources susceptible to accrual include property tax, municipal license tax and intergovernmental contributions and reimbursements. Property tax and municipal license receivables are recorded in the period when an enforceable legal claim has arisen. Receivables for intergovernmental contributions and reimbursements are generally recorded in the period when all eligibility requirements imposed by the provider have been met.

Property taxes and municipal license taxes are recorded as revenues (net of amounts considered not collectible) in the period when resources are required to be used or the first period that the use of the resources is permitted (subject to the availability limitations).

Revenues for intergovernmental contributions and reimbursements are generally recorded in the period when all eligibility requirements imposed by the provider have been met. For the majority of grants, resources must be expended by **the Municipality** on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as expenditures are incurred to the extent available. For the other revenue, resources are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are generally recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met. Substantially, all other revenue items are considered to be measurable and available only when the government receives the cash.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Basis of Accounting (Continuation)

In applying the susceptible to accrual concept to governmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to **the Municipality**; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Municipality reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when **the Municipality** receives resources before it has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and revenue is recognized.

In subsequent periods, when both revenue recognition criteria are met, or when **the Municipality** has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and revenue is recognized.

Expenditures and related liabilities are generally recorded, except as described below, in the accounting period in which the liability is incurred. Expenditures and related liabilities for interest on long-term obligations, are recorded when due, except for interest due July 1st of the following year which is accounted for as paid on June 30. Vacation, sick leave, disallowances and litigation are recorded in the general long-term debt account group.

Licenses, permits, service charges, fines and forfeits, investment income and miscellaneous revenues are recorded as revenues on the cash basis, which includes amounts collected shortly after June 30.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Accounting

The Municipality's annual budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipality's City Council prior to the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipality's City Council.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the general fund in the accompanying Statement of Revenues and Expenditures – Budget and Actual – General Fund is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are considered as expenditures for budgetary purposes.
2. Prior year encumbrances settled during the year and recorded as expenditures for GAAP basis.
3. Effect of GAAP basis accruals.

The following is reconciliation, of the differences between GAAP and the budgetary basis for the general funds excess of expenditures and other financing uses over revenues and other financing sources:

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Budgetary Accounting (Continuation)

GAAP basis	\$ 1,767,692
Prior year encumbrances settled during the current year	631,969
Current year encumbrances treated as current year expenditures for budgetary purposes	<u>(174,984)</u>
Budgetary basis	\$ <u>2,224,677</u>

Cash and Cash Equivalents

Substantially all cash balances are commingled in a general checking account, certificates of deposit and several special purpose bank accounts, except for cash and deposits restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Investment earnings are all credited to the general fund.

Cash with fiscal agent represents property tax collections retained by the "Centro de Recaudación de Ingresos Municipales" (CRIM) and restricted for the payment of the Municipality's debt service.

Interfund Transactions

The Municipality has the following types of interfund transactions among funds:

Operating transfers – Transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund. Transfers from the general fund to the enterprise fund to subsidize operations are recorded as operating transfers.

Receivables and Payables – Transactions between funds outstanding at the end of the fiscal year are referred as due to/from other funds. The general fund provides services, at cost, to other funds are treated as reductions in expenditures of the general fund.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

General Fixed Assets

General fixed assets acquired or constructed are reported as expenditures in the fund that finances the acquisition and are capitalized at cost in the general fixed assets account group. Donated general fixed assets are reported at estimated fair market value at the date received.

Certain improvements such as roads, streets, bridges, curbs and gutters sidewalks are not capitalized. Such assets normally are stationary and of value only to **the Municipality**. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets. Depreciation is not recorded in the general-fixed assets account group.

The Municipality does not maintain adequate records for its fixed assets and management was not able to make an assertion as to the completeness of the General Fixed Assets Group of Accounts. However, at present the Finance Department is in the process of updating these records and performing a physical inventory of equipment in order to maintain a proper system in the future.

Compensated Absences

Employees accrue vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulates is fully vested to the employees from the first day of work. This liability is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2003.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated unpaid sick leave at the then current rate, if the employee has at least 10 years of service with **the Municipality**. This liability is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2003.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Long-term Debt

The liabilities reported in the general long-term debt account group include **the Municipality's** general obligation bonds and notes, and other long-term liabilities including vacation, sick leave, and litigation.

Reserves of Fund Balance

Reserves 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 purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

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

Capital projects - Represents net assets available to finance future capital outlays.

Other specified purposes - Represents fund balances available for specific use under federal and grant programs.

Claims and Judgments

The estimated amount of the liability for claims and judgments, 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.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Use of estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual result could differ from those estimates.

Total (memorandum only) Columns

Total columns on the general-purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of these data.

2. ANNUAL REVENUES

Property Taxes

The Municipal Revenue Collection Center (the Center) was created by Law No. 80 as part of the Municipal Reform Act of August 30, 1991. The Center was created for the purpose of establishing a separate and independent governmental entity from the Commonwealth of Puerto Rico (the Commonwealth), to bill, collect, receive and distribute the property tax revenues of the Municipalities. Prior to the enactment of this law, the Commonwealth, through the Department of the Treasury, accounted for these revenues.

Pursuant to Law No. 80, the Center is empowered to bill and collect property taxes and distribute property tax collections to **the Municipality**.

The Center must advance to **the Municipality**, on a monthly basis, on twelfth of the estimate of annual revenue for **the Municipality**. A final liquidation of funds due from or to **the Municipality** by the Center is required within six and twelve months, following the close of the fiscal year on June 30, respectively.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

2. ANNUAL REVENUES (Continuation)

Property Taxes (Continuation)

Real and personal property are assessed based on the taxable values as of January 1, for all properties located in **the Municipality**. Assessed values of real property are established at current values in 1957. Assessed values of personal property are based on the book value at January 1 of each year. Real property taxes are billed by the Center and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due on May 15, when the related property tax return is required to be filed.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. 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 Department of the Treasury instead of the property taxpayer becomes the source of payment in these cases.

The annual tax rate for fiscal year 2003 is 7.83% for real property and 5.83% for personal property. The annual tax rate is comprised of a basic minimum tax of 4% for personal property and 6% for real property which is appropriated for general purposes and accounted in the general fund; 1.03% assessed by the Commonwealth of Puerto Rico for the payment of general obligation bonds and an amount assessed by **the Municipality** for the payment of municipal bonds and notes.

Several Commonwealth of Puerto Rico Laws, primarily to promote economic development, provide Property Tax exemptions. Under various industrial incentive laws, qualifying businesses are exempted totally or partially from real and personal property taxes. Retailers with annual sales volume of less than \$150,000 are granted an exemption from taxes on the first \$50,000 of personal property.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

2. ANNUAL REVENUES (Continuation)

Property Taxes (Continuation)

The Commonwealth also exempts homeowners of taxes on the first \$15,000 of the assessed value of real property used by the owner as his principal residence. Veterans have an additional exemption of taxes on \$5,000 of the assessed value of real property.

Law 16 of May 1960 authorizes the Secretary of the Treasury of the Commonwealth to grant a discount of .20% of the annual basic tax over the assessment value of all real and personal property not exempt from taxes. The Department of the Treasury reimburses the discount to **the Municipality**.

Since the collection of property taxes from the taxpayers is under the administration of CRIM, **the Municipality** records the revenues related to property taxes, net of the operational expenses allocated by the CRIM to **the Municipality**, when such revenues are reported by the CRIM. During the fiscal year 2003 the allocated expenses amounted to \$130,033.

The amount receivable arising from the fiscal year end distribution of actual property tax collections versus property tax advances made by the CRIM to **the Municipality** is \$277,002. Advances of property tax on (a) and (b) above, are recorded as revenues on the General Fund and Debt Service Fund, respectively.

Municipal License Taxes

The Municipality imposes a volume of business tax pursuant to Act. No. 82 of August 30, 1991, on all business entities, which operate within **the Municipality**, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

2. ANNUAL REVENUES (Continuation)

Municipal License Taxes (Continuation)

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. **The Municipality** grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The Municipality recognized an account receivable for the estimated municipal license taxes to be collected during next year but corresponding to current year and prior years. Principal license taxes collected prior to June 30, but pertaining to the next fiscal year are recorded as deferred revenues.

3. CASH, CASH EQUIVALENTS AND DEPOSITS

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government of the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest bearing bank accounts, and certificates of deposit.

There are three categories of credit risk that apply to **the Municipality's** cash and deposits:

Category 1 - Insured or collateralized with securities held by **the Municipality's** or by **the Municipality's** agent in **the Municipality's** name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in **the Municipality's** name.

Category 3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in **the Municipality's** name.)

MUNICIPALITY OF GURABO, PUERTO RICO

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

3. CASH, CASH EQUIVALENTS AND DEPOSITS (Continuation)

Balances held in each category are as follows:

	1	Categories 2	3	Bank Balance	Carrying Amount
Cash	\$ --	--	9,136,532	9,316,532	8,156,502
Certificates of Deposits	--	--	6,400,425	6,400,425	6,400,425
	<u>\$ --</u>	<u>--</u>	<u>15,716,957</u>	<u>15,716,957</u>	<u>14,556,927</u>

Deposits at the Government Development Bank for Puerto Rico are restricted principally for debt service and capital projects. These are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks. Therefore, these have been categorized as "Uncollateralized" in the above table.

4. INTERFUND TRANSACTIONS

Due From / To Other Funds

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures.

Following is a summary of interfund assets and liabilities as of June 30, 2003:

Receivable		Payable	
Fund	Amount	Fund	Amount
General	\$ 1,627,802	Debt Service	\$ 3,547
		Capital Project	240,137
		Special Revenue	<u>1,384,118</u>
			<u>\$1,627,802</u>

MUNICIPALITY OF GURABO, PUERTO RICO

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

5. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenues are primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as Puerto Rico Electric Power Authority. For the year 2002-2003 the contribution in lieu of taxes was \$996,351.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

6. GENERAL FIXED ASSETS

A summary of the general fixed assets account group follows:

	Balance <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2003</u>
Land	\$ 977,200	-	(223,000)	754,200
Buildings	5,797,109	-	-	5,797,109
Equipment and vehicles	12,310,707	1,278,102	(85,462)	13,503,347
Construction in progress	4,077,791	-	-	4,077,791
Improvements	<u>5,968,158</u>	<u>-</u>	<u>(86,250)</u>	<u>5,881,908</u>
	<u>\$ 29,130,965</u>	<u>1,278,102</u>	<u>(394,712)</u>	<u>30,014,355</u>

7. GENERAL LONG-TERM DEBT

Changes in general long-term debt for the year ended June 30, 2003, are summarized as follows:

	<u>Bonds</u>	<u>Federal Loans and Notes</u>	<u>Loans</u>	<u>Total</u>
Balance at June 30, 2002	\$3,461,000	669,045	450,000	4,580,045
Payments	(348,000)	(18,000)	(50,000)	(416,000)
New debt issued	3,470,000	-	-	3,470,000
Reduction from refinancing	<u>(150,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>(200,000)</u>
Balance at June 30, 2003	<u>\$6,433,000</u>	<u>651,045</u>	<u>350,000</u>	<u>7,434,045</u>

MUNICIPALITY OF GURABO, PUERTO RICO

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003**

7. GENERAL LONG-TERM DEBT (Continuation)

As of June 30, 2003, debt service requirements for the above general long-term debt, are as follow:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 503,000	391,847	894,847
2005	525,000	382,212	907,212
2006	404,000	357,609	761,609
2007	427,000	337,337	764,337
2008	422,000	156,020	578,020
2009-2013	1,710,000	1,271,465	2,981,465
2014-2018	1,312,000	853,372	2,165,372
2019-2023	1,164,000	514,357	1,678,357
2024-2027	<u>967,045</u>	<u>148,825</u>	<u>1,115,870</u>
Totals	<u>\$ 7,434,045</u>	<u>4,413,044</u>	<u>11,847,089</u>

At June 30, 2003, accrued interest payable on bonds amounted to \$31,131.

The legal debt margin of **the Municipality** is equal to 10% of the total assessment of property located within **the Municipality**. Total property assessments, based on information reported by the Municipal Revenue Collection Center amounted to approximately \$125,175,000.

Bonds

General obligation bonds payable as of June 30, 2003 are as follows:

<u>Series</u>	<u>Interest Rate</u>	<u>Payable Through</u>	<u>Original Issue</u>	<u>Balance June 30, 2003</u>
1982	5.00	2007	397,000	\$ 100,000
1990	6.00	2015	1,967,000	1,402,000
1991	5.00	2015	615,000	404,000
1995	5.00	2020	325,000	273,000
1999	4.75	2005	449,250	164,000
2000	7.80	2005	245,000	110,000
2002	2.7 to 5.6	2026	665,000	645,000
2003	2.7 to 4.10	2009	755,000	665,000
2003	6.50	2027	2,715,000	<u>2,670,000</u>
Total Bonds				<u>6,433,000</u>

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

7. GENERAL LONG-TERM DEBT (Continuation)

Federal Loans and Notes

\$704,000 note payable in annual installments of \$17,000 to \$44,000 until January 2024, interest at 4.5%	651,045
Operational loan of \$1,000,000 payable in annual installments of \$50,000 until July 1, 2010, interest at 8%	<u>350,000</u>
Total federal loans and notes	<u>1,001,045</u>
Total general obligation bonds, special and federal notes	\$ <u>7,434,045</u>

Other Long-Term Debt with Governmental Agencies

\$193,022 due to the Municipal Revenue Collection Center for property taxes advance, payable in monthly installments of \$16,085 until June 30, 2004	\$ 193,022
\$101,983 due to the Treasury Department, payable in monthly installments of \$773 until June 30, 2010	<u>64,898</u>
Total Debt With Other Governmental Agencies	\$ <u>257,920</u>

8. RETIREMENT SYSTEM

The Municipality participates in the Employee's Retirement System of the Government of Puerto Rico and its instrumentalities (ERS), a multiple-employer contributory retirement plan, which covers only eligible full-time employees. The system provides retirement, death, and disability benefits and annuities to Commonwealth employees not covered by their own systems.

Commonwealth legislation required employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participants' gross salary. Total employer and employee contributions during the year ended June 30, 2003, amounted to approximately \$208,400 and \$185,400, respectively.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

8. RETIREMENT SYSTEM (Continuation)

On September 24, 1999, an amendment to Act No. 447 of May 15, 1991, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining on or after January 1, 2000 will only be allowed to become members of the System 2000. System 2000 will reduce the retirement age from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in accounts which either; (1) earn a fixed rate based on the two year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000.

The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

For the year ended June 30, 2003, total payroll for all covered employees was approximately \$2,943,088. Covered payroll refers to all compensation paid by **the Municipality** to active employees covered by the ERS on which contributions to the pension are based.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

8. RETIREMENT SYSTEM (Continuation)

The amount of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years, for those employees covered after March 31, 1990, the annuity shall be equal to one and one-half percent of the average compensation multiplied by the number of years of creditable service, in no case shall the annuity be less than \$2,400.

9. DEFERRED REVENUES-GENERAL FUND

Deferred revenue of the general fund consists of the following at June 30, 2003:

Gross Volume of Business	\$2,506,125
Property tax receivable from CRIM	227,007
Receivable from Puerto Rico Electric Power Authority	113,491
Christmas bonus receivable	73,976
Deposits	<u>113,541</u>
Total	<u>\$3,034,140</u>

10. COMMITMENTS AND CONTINGENCIES

Commitments

Operating Leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2003, amounted to \$102,431.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

10. COMMITMENTS AND CONTINGENCIES

Commitments

General Commitments

The Municipality has commitments to invest approximately \$1.5 millions to complete construction projects at several locations within the Municipality. Federal funds are expected to be used to satisfy all of these construction and improvements commitments.

Contingencies

Litigation

The Municipality is a defendant and co-defendant in various lawsuits amounting to approximately \$14,210,000 related with legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$4,203,737 in the general long-term debt account group for anticipated unfavorable judgments. In 2002, the Puerto Rico Supreme Court issued an unfavorable decision and ordered the Municipality to pay \$2,700,000 for employees dismissed for alleged political discrimination. Consequently, the Municipality obtained a \$2,715,000 operating loan to pay such sentence. However, the Municipality subsequently appealed the sentence before the United States First Circuit Federal Court and it revoked the Puerto Rico Supreme Court decision and ordered a new trial.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. The amount presented in the general long-term debt group of account represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

10. COMMITMENTS AND CONTINGENCIES (Continuation)

Contingencies (Continuation)

CRIM

In December 2001, the CRIM refinanced an approximately \$70 millions long-term debt with a financial institution related with the Land Information Management System (LIMS) project. The loan includes the interests at 5.95% for a 10 years period ending in 2011 and it is collateralized proportionally with the total add-valorem personal and real property of all the municipalities.

Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. All grants are subject to financial and compliance audits by the grantor agencies, which could result in request for reimbursement by the grantor agencies for expenditures, which are disallowed under the terms of the grants. **The Municipality's** administration believes that future disallowance, if any, would not be significant.

11. HEALTHCARE COSTS

During the year ended June 30, 2000, the Governor of the Commonwealth of Puerto Rico required from the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by **the Municipality** amounted to \$484,345 for the fiscal year ended June 30, 2003.

12. GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments). GASB 34 will significantly change the way in which **the Municipality** reports its finances.

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

12. GASB 34 (Continuation)

GASB 34 established two bases for reporting financial information: government-wide financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for preparing fund financial statements is similar to conventional governmental financial statements except the focus for presentation is on major funds rather than fund types. Capital assets, including infrastructure assets and depreciation assets, are reported on the entity-wide perspective financial statements. The management's discussion and analysis information precedes the basis financial statements but is considered required supplementary information.

Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information.

GASB 34 will begin to take effect for **the Municipality** in fiscal year 2003-2004.

13. PRIOR PERIOD ADJUSTMENTS

The Municipality restated the beginning fund balances by \$696,635 as follows:

General Fund – Electricity expenditure duplicated in fiscal year 2002	\$791,079
Special Revenue Fund – Overstatement of certain receivables from the federal programs	(243,018)
Debt Service Fund – Incorrect calculation of the interest payable and matures loans payable	44,184
Capital Project Fund – A cash balance duplicated in one of the programs and incorrect determination of a federal program deferred revenue	<u>104,390</u>
Total	<u>\$696,635</u>

MUNICIPALITY OF GURABO, PUERTO RICO

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

14. SUBSEQUENT EVENTS

In September 2003, the Municipal Legislature authorized the Major to enter into Agreements with the Puerto Rico Housing Department. These agreements totaling \$4,703,000 are for rehabilitation, construction and major improvements of housing facilities throughout **the Municipality**.

On November 18, 2003 the Municipal Legislature authorized the issuance of General Obligation Bonds totaling \$465,000. This amount will be used to fund the construction of a water and sewer system in a rural community within **the Municipality**. The payment of these bonds will be through the advalorem portion of the property tax, which is deposited in the Government Development Bank.

MUNICIPALITY OF GURABO, PUERTO RICO

**ADDITIONAL REPORTS REQUIRED UNDER THE
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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 Gurabo's Honorable Mayor and
Members of the Municipality's Assembly
Gurabo, Puerto Rico

We have audited the financial statements of the **Municipality of Gurabo** as of and for the year ended June 30, 2003, and have issued a qualified report thereon dated January 20, 2004. Except for the balance of general fixed assets account group, 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 of America.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Gurabo's** financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of material 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 Gurabo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial statements and not to provide assurance on the internal control over financial reporting and its operation that we consider to be reportable conditions.

**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**

(Continuation)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality of Gurabo's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 03-II-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above, is a material weakness.

This report is intended solely for the information and use of the Mayor, the Municipal Assembly, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nieves Velazquez & Co., P.S.C.

January 20, 2004
San Juan, Puerto Rico

CPA Stamp # 1882078 was affixed
to the record copy of this report.





NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

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 Gurabo's Honorable Mayor and
Members of the Municipality's Assembly
Gurabo, Puerto Rico

Compliance

We have audited the compliance of the **Municipality of Gurabo** 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, 2003. The **Municipality of Gurabo'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 Gurabo's** management. Our responsibility is to express an opinion on the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Gurabo'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 Gurabo's** compliance with those requirements.

**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 (Continuation)**

In our opinion, the **Municipality of Gurabo** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which 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 03-III-1 through 03-III-5.

Internal Control Over Compliance

The management of the **Municipality of Gurabo** 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'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's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as findings 03-III-1 through 03-III-5.

**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 (Continuation)**

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 the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe that none of the findings is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the **Municipality of Gurabo** as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 20, 2004. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a 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. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, the Municipal Assembly, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 18, 2004
San Juan, Puerto Rico

CPA Stamp # 1882079 was affixed
to the record copy of this report.

Nieves Velazquez & Co., P.S.C.



**MUNICIPALITY OF GURABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FISCAL YEAR ENDED JUNE 30, 2003

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
U. S. Department of Housing and Urban Development				
<u>Major Programs:</u>				
Pass-through the Office of the Commissioner of Municipal Affairs	Community Development State Block Grant Program	14.228	2001-000030	\$ 1,021,779
Direct Programs	Section 8 Housing Choice Vouchers	14.871	RQ41V0	731,064
Department of Health and Human Services				
<u>Major Program:</u>				
Pass-through Department of Family of Puerto Rico	Child Care and Development Block Grant (SENDEC)	93.575	123-2000-00612	541,374
<u>Non-Major Programs:</u>				
Pass-through the Office for the Affairs of the Elderly	Special programs for Aging Title III Parts B and C Nutrition Services	93.045	N/A	81,165
U.S. Department of Agriculture				
<u>Non-Major Program:</u>				
Direct Program	Water and Waste Disposal Systems for Rural Communities	10.760	N/A	<u>162,561</u>
Sub-Total				2,537,943

MUNICIPALITY OF GURABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continuation)

FISCAL YEAR ENDED JUNE 30, 2003

<u>Federal Grantor</u>	<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Sub-Total brought forward				2,537,943
Department of Education				
<u>Non-Major Program:</u>				
Pass-through				
Department of Education	Child and Adult Care Food Program	10.558	N/A	15,238
U.S. Department of Justice Office (Office of Community Oriented Policing Services)				
<u>Non-Major Program:</u>				
Pass-through the Office for the Affairs of the Youth	Office for the Affairs of the Youth Program (OAJ)-Prevention for Delinquency	16.592	2000-LB-VX-1085	6,578
Pass-through Commonwealth of Puerto Rico Office of the Governor of Puerto Rico	Community Oriented Policing Services	16.710	1999-SH-WX-0670	<u>271,253</u>
Total Expenditures				\$ <u>2,831,012</u>

MUNICIPALITY OF GURABO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2003

1. GENERAL

The accompanying Schedule of Federal Financial Awards presents the expenditures of all Federal financial awards programs of the **Municipality of Gurabo**, Puerto Rico. The **Municipality of Gurabo** reporting entity is defined in Note 1-A to the general-purpose financial statements. Federal financial awards received directly from Federal agencies as well as Federal financial awards passed through other government agencies are included in the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1-C to the general-purpose financial statements.

3. RECONCILIATION WITH GENERAL PURPOSE FINANCIAL STATEMENTS

Expenditure amounts included in the accompanying schedule agree with the amounts included in the general-purpose financial statements as follows:

<u>Fund</u>	<u>Federal Assistance</u>	<u>Municipal Assistance*</u>	<u>Total per Financial Statements</u>
Special Revenue	\$ 1,646,672	2,497,982	4,144,654
Capital Project	<u>1,184,340</u>	<u>1,106,040</u>	<u>2,290,380</u>
Totals	\$ <u>2,831,012</u>	<u>3,604,022</u>	<u>6,435,034</u>

* The Municipal Assistance includes transfer-outs of \$90,687 and \$143,462 by the Special Revenue and Capital Project Funds, respectively.

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I - Financial Statements

Type of auditor's report issued: **Qualified**

Internal control over financial reporting:

- * Material weakness(es) identified? X yes no
- * Reportable condition(s) identified that are not considered to be material weaknesses? yes X no
- Noncompliance material to financial statements noted? X yes no

Part II - Federal Awards

Internal control over major programs:

- * Material weakness(es) identified? yes X no
- * Reportable condition(s) identified that are not considered to be material weaknesses? X yes no

Type of auditor's report issued on compliance for major programs: **Unqualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.575	Child Care and Development Block Grant (Sendec)
14.228	State Block Grant Program (SBGP)
14.871	Section 8 Rental Programs for Low and Very Low Income Families

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

Auditee qualified as low-risk auditee? yes X no

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESITONED COSTS

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
All Federal Programs and Municipal Funds	03-II-1	Accounting Records <u>Criteria</u> Section 20 of OMB Circular 102, Common Rule requires that adequate accounting records should be maintained to each federal program. <u>Condition</u> The Municipality has not maintained adequate accounting records to account for the real and personal property of all the Municipality funds; federal and non federal. <u>Cause</u> The Municipality maintains a property ledger for all real and personal property but, due to lack of adequate internal control there is no assurance that it includes all the property purchased and donated to the municipality.	

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
All Federal Programs and Municipal Funds	03-II-1	<p>Accounting Records</p> <p><u>Effect</u></p> <p>The fixed assets group of accounts balance presented in the general purpose financial statements is not necessarily correct.</p> <p><u>Recommendation</u></p> <p>We recommend the Municipality to assign a task force or an outside consultant to identify all the real and personal property of the Municipality, assign the corresponding cost of acquisition and the market value for the donated property in order to correct such accounts balances.</p> <p><u>Management Comments</u></p> <p>Municipality officials informed that they already hired and external consultant to determine and account for all personal and real property to comply with GASB 34 during the 2003-2004 fiscal year.</p>	

MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-1	Cash Management <u>Criteria</u> The OMB Circular A-133 (Revised) compliance C, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and program disbursement. <u>Condition</u> For Section 8, HAP payments for July 2002 were issued during August 2002. <u>Cause</u> Section 8 year-end closing procedures delayed the issuance of HAP payments for July 2002. <u>Effect</u> The program is maintaining cash balances in excess of its needs and, therefore, is not complying with program regulations.	N/A

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-1	Cash Management	

Recommendations

The Administrative personnel of Section 8 program shall develop efficient procedures for program year-end closing. This will ensure that HAP payments of July will be issued on time.

Management Comments

Management disagrees with the finding. During the last years, the situation has always occurred in Section 8 Program. The reason being that both Section 8 and the Municipality have the same fiscal year at June 30th. As a result of the year-end closing procedures and the beginning of a new fiscal year by Section 8 and the Municipality, the tenant's rental payments couldn't be processed during the month of July.

MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-2	<p>Davis Bacon Act</p> <p><u>Criteria</u></p> <p>The OMB Circular A-133 (Revised) compliance D, requires that on construction contracts over \$2,000 contractor and subcontractor must comply with Davis Bacon Act.</p> <p><u>Condition</u></p> <p>Based on our examination, contract 2002-2003-17 and contract 2001-2002-08 did not include a clause requiring that contractors or subcontractors comply with Davis Bacon Act and DOL regulations (29 CFR, "Labor Standards Provisions Applicable to contracts Governing Federally financed and assisted construction.")</p> <p><u>Cause</u></p> <p>Omission of Davis Bacon clauses during contract preparation. Inadequate review by administrative personnel of contracts governing federally financed and assisted construction.</p>	<p>ATO</p> <hr/>

MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-2	Davis Bacon Act	

Effect

Contracts are not in compliance with program regulations.

Recommendations

We recommend the inclusion of Davis Bacon clauses in construction contracts. Also, more supervision and technical training to municipal officials should be exercised to ensure compliance with program regulations.

Management Comments

Management disagree with the finding. They do not believe it's necessary to include a clause in the contract nor that the contractor certify in writing his compliance with the Davis Bacon Act and the Department of Labor regulations.

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
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SBGP	03-III-2	Davis Bacon Act	
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Management Comments

As part of the Pre-Auction process carried-out by the Municipality all potential contractors are informed that they should comply with the Davis Bacon Act and the Department of Labor regulations. In the "Junta de Subasta" minutes is given to each of the potential contractors that participated in this process. The minutes are an essential part of the auction decision and if any contractor selected is afterwards found not in compliance with said requirements, the Municipality could cancel the contract in effect. In the two contractors, the Municipality included the Pre-Auction minutes as evidence of our warning to said provisions. So therefore, we don't consider it necessary to include a clause in the contractor's contract of this requirement.

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-3	Equipment Management <u>Criteria</u> The OMB Circular A-133 (Revised) compliance F, requires that equipment records should be accurate maintained and physical inventory should be taken at least once every two years. <u>Condition</u> During the fiscal year ended June 30, 2003, a physical inventory of equipment was made; however, reconciliation to the equipment records was not made. The detail of equipment acquired with federal funds did not show the acquisition dates. Prior to fiscal year 2002-2003 all equipment acquired was labeled "FP." This heading means "Federal Programs." Therefore, proper segregation of equipment pertaining to each federal program was not made. As of June 30, 2003, the Municipality has not corrected this situation. <u>Cause</u> Due to lack of adequate equipment records, we could not examine the acquisitions and dispositions of equipment and real property for the fiscal year 2002-2003.	

MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-3	<p>Equipment Management</p> <p><u>Effect</u></p> <p>Equipment and Rental property management is not in compliance with program regulations.</p> <p><u>Recommendations</u></p> <p>We recommend that more supervision should be exercised to ensure proper records for equipment inventory, which should be reconciled with accounting record balances.</p> <p><u>Management Comments</u></p> <p>Management agree with the finding. The report given to the external auditors, Fixed Asset Change for Asset Type, the acquisition does not appear. This information is reflected in the report titled Organized Fixed Assets.</p>	

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-4	<p>Procurement, Suspension and Debarment</p> <p><u>Criteria</u></p> <p>OMB Circular A-110 and the A-102 Common Rule require that non-federal entities do not enter into contracts with parties that are suspended or debarred. Thus, contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.</p> <p><u>Condition</u></p> <p>Based on our examination, the suspension and debarment clauses were not included in contracts 2002-2003-17 and 2001-2002-08.</p> <p><u>Cause</u></p> <p>Omission of suspension and debarment clauses during contract preparation. Inadequate review by administrative personnel of contracts governing federally financed and assisted construction.</p>	—

MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-4	<p>Procurement, Suspension and Debarment</p> <p><u>Effect</u></p> <p>Contracts are not in compliance with program regulations.</p> <p><u>Recommendations</u></p> <p>We recommend the inclusion of suspension and debarment clauses in every contract funded with federal assistance.</p> <p><u>Management Comments</u></p> <p>Management disagrees with the finding. Management do not believe it's necessary to include a clause in the contract nor that the contractor certify in writing his compliance with suspension and debarment compliance. As part of the Pre-Auction process carried out by the Municipality all potential contractors are informed that the Municipality cannot enter in contract with any contractor that has been suspended or debarred locally by Puerto Rico or by the federal government. In the "Junta de Subasta" minutes of the Pre-Auction process, said information</p>	

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
SBGP	03-III-4	Procurement, Suspension and Debartment	

Management Comments

is documented and a copy of these minutes is given to each of the potential contractors that participated in this process. The minutes are an essential part of the auction decision and if any contractor selected is afterwards found not in compliance with said requirements, the Municipality could cancel the contract in effect. In the minutes of the two contractors indicated, said requirement was specifically mentioned.

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-5	<p>Special Tests and Provisions/ Housing Quality Standards</p> <p><u>Criteria</u></p> <p><u>Annual Inspection</u> Program Regulations (24 CFR sections 982.158(d) and 982.405 (b)) require that the Public Housing Administrator (PHA) must inspect the units leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS). The PHA must prepare a unit inspection report.</p> <p><u>Reinspection</u> Program Regulations (24 CFR sections 982.158 (d) and 982.404) require that for units under Housing Assistance Payments contract that fail to meet Housing Quality Standards, the Public Housing Administrator (PHA) must require the owner to correct any life threatening deficiencies within 24 hours after the inspections and all other deficiencies within 30 days calendar days or within specified PHA approved extension.</p>	

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-5	<p>Special Tests and Provisions/ Housing Quality Standards</p> <p><u>Conditions</u></p> <p>During our examination we found that the Municipality did not comply with the annual inspection of 10 cases and reinspection of 3 cases as required by the federal program.</p> <p><u>Causes</u></p> <p>Since January 2001, the Section 8 program do not have an Inspection Officer. Also, no follow up on deficiencies encountered were made by Section 8 Program Officials.</p> <p><u>Effect</u></p> <p>The program did not comply with Housing Quality Standards set forth in regulations.</p>	<p>N/A</p> <hr style="width: 10%; margin: auto;"/>

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-5	Special Tests and Provisions/ Housing Quality Standards	N/A

Recommendations

The Section 8 program officials shall ensure that annually each tenants property is subject to an inspection according to program regulations. Close monitoring of each tenant's file should be made in order to ascertain that inspections will be made on or before contract's expiration date. Also, continuous monitoring of those properties that failed inspections should be made. In addition, adequate follow-up on deficiencies shall be made by the Section 8 program officials.

Management Comments

Management agree with the finding. Since January, 2001, the Section 8 Program does not have an Inspection Officer in function. The inspections carried-out were limited and performed by a Section 8 employee without having an Inspection Officer designation. Effective April 1, 2003, Mr. Héctor A. Morales was designated as Inspection Officer in the Section 8 Program. Since then, we have

**MUNICIPALITY OF GURABO
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Finding Number</u>	<u>Finding/Non-Compliance</u>	<u>Questioned Costs</u>
Section 8	03-III-5	Special Tests and Provisions/ Housing Quality Standards	N/A

Management Comments

been performing the required inspections. In the following cases a limited visual inspection was realized but evidenced of the same was not documented in the tenants file:

Reference	Contract Number	Date of Inspection
D	090	12/30/2002
G	120	10/3/2002
H	011	9/19/2002
I	132	9/5/2002

The inspection date information appears in the HUD form 50058 of the tenants.

The deficiencies noted in the inspections of the three tenants were corrected with the exception of the roof-leaking problem. During the period of the deficiencies correction process, the Municipality retained the tenants rent checks in order to assure prompt attention by them.

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2002	2002-1	<p>a) The general ledger fund and cash account balances as of June 30, 2002, as per OCAM System were misstated.</p> <p>b) Cash at June 30, 2002, per general ledger control accounts were not in agreement with their corresponding bank reconciliations by \$3,559,317.</p>	The corrective action of this finding is outside the Municipality's scope jurisdiction.
	2002-2	<p>a) The accounting of special revenue and capital project funds are combined together in four funds: 02 and 70 (special revenue funds) and 20 and 21 (capital project funds).</p> <p>b) The Municipality does not account in the OCAM System the transactions related with the debt service fund.</p> <p>c) The Municipality does not update in the OCAM System the trial balances of the General Fixed Asset and General Long-Term Debt account groups.</p> <p>d) The Municipality did not record in the OCAM System the audit adjustments proposed for the Single Audit corresponding to fiscal year ended June 30, 2001.</p>	<p>For a, c and d, the corrective action of this finding is outside the Municipality's scope jurisdiction.</p> <p>For b, we'll correct this situation during fiscal year 2003-2004.</p>
	2002-3	Interfund transactions were not balanced at June 30, 2002.	We'll correct this situation during fiscal year 2003-2004.
	2002-4	Federal grants and other non-general fund's non-exchange transactions were recorded as revenue when the resources were received instead of when the resources were available (susceptible to accrual) and measurable.	We'll correct this situation during fiscal year 2003-2004.

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2002	2002-5	<p>a) The Municipality does not record the expenditures of significant amounts of property and equipment purchased during the year 2001-2002 in all funds.</p> <p>b) The Municipality does not record in the subsidiary of property, plant and equipment the expenditures related to the construction of capital assets in the general fixed assets account group as construction in progress, building, improvements and land acquisition when the expenditures are incurred.</p> <p>c) The Municipality's management could not provide us with evidence that a physical inventory was performed.</p>	<p>We'll correct this situation during fiscal year 2003-2004, as part of our implementation of GASB 34.</p> <p>We'll consult OCAM with respect to this situation in order to correct the same during fiscal year 2003-2004.</p> <p>This situation was corrected in fiscal year 2002-2003 and we'll continue to perform annual inventory as required.</p>
	2002-6	<p>a) The total vouchers payable as of June 30, 2002 had misleading balances.</p> <p>b) The detail of outstanding encumbrances for all funds was not reconciled with fund balance reserved for encumbrance control accounts.</p> <p>c) The deferred volume of business tax revenue at June 30, 2002 was materially misstated by \$3,649,030.</p> <p>d) The Municipality did not perform segregation between accounts payable and encumbrances.</p>	<p>For a, b and c, the corrective action of this finding is outside the Municipality's scope jurisdiction.</p> <p>Both of these functions are segregated since August, 2003.</p>

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2002	2002-7	<p>The following situations were observed regarding the human resource structure and functions in the Municipality:</p> <p>a) The Finance Director does not have a password to access the OCAM Accounting System. Only one employee has unique access to the OCAM System, which is the same person that originates the general journal entries.</p> <p>b) The Finance Department does not have an accounting supervisor. Therefore, there is no evidence that the general journal entries are reviewed and approved by a responsible official not involved with their origination.</p> <p>c) Control and subsidiary accounts are not reconciled regularly and discrepancies are not reported to appropriate personnel.</p>	<p>We'll correct this situation during fiscal year 2003-2004.</p> <p>All entries have been always reviewed and approved by the Finance Director. At this moment we have no need for an Accounting Supervisor.</p> <p>We'll correct this situation during fiscal year 2003-2004.</p>
June 30, 2001	2001-1	<p>a) The general ledger fund and cash account balances as of June 30, 2001, as per OCAM System were misstated.</p> <p>b) Cash at June 30, 2001, per general ledger control accounts were not in agreement with their corresponding bank reconciliations by \$9,006,233.</p>	<p>For a and b, the corrective action of this finding is outside the Municipality's scope jurisdiction.</p>

MUNICIPALITY OF GURABO

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	2001-2	<p>a) The accounting of special revenue and capital project funds are combined together in four funds: 02 and 70 (special revenue funds) and 20 and 21 (capital project funds).</p> <p>b) The Municipality does not account in the OCAM System the transactions related with the debt service fund.</p> <p>c) The Municipality does not update in the OCAM System the trial balances of the General Fixed Asset and General Long-Term Debt account groups.</p>	The corrective action of this finding is outside the Municipality's scope jurisdiction.
	2001-3	Interfund transactions were not balanced at June 30, 2001.	We'll correct this situation during fiscal year 2003-2004.
	2001-4	Federal grants and other non-general fund's non-exchange transactions were recorded as revenue when the resources were received instead of when the resources were available (susceptible to accrual) and measurable.	We'll correct this situation during fiscal year 2003-2004.

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	2001-5	<p>a) The Municipality does not record the expenditures of significant amounts of property and equipment purchased during the year 2000-2001 in all funds.</p> <p>b) The Municipality does not record in the subsidiary of property, plant and equipment the expenditures related to the construction of capital assets in the general fixed assets account group as construction in progress, building, improvements and land acquisition when the expenditures are incurred.</p> <p>c) At June 30, 2001 there was a difference of approximately \$6.6 millions between the General Fixed Asset Account Groups control account and the property subsidiary ledger.</p> <p>d) During our examination of the Municipality's property and equipment adjustments to eliminate property, plant and equipment from the subsidiary, the Municipality could not provide evidence of the disposal and retirement of \$2,491,814 of equipment and \$143,000 of land.</p> <p>e) The Municipality's management could not provide us with evidence that a physical inventory was performed.</p>	<p>We'll correct this situation during fiscal year 2003-2004 as part of our implementation of GASB-34.</p> <p>We'll correct this situation during fiscal year 2003-2004.</p> <p>The corrective action of this finding is outside the Municipality's scope jurisdiction.</p> <p>Action plan not deemed necessary at present time due to time lapse (years) since this situation was reported.</p> <p>This situation was corrected in fiscal year 2002-2003 and we'll continue to perform annual inventory as required.</p>

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	2001-6	<p>a) The total vouchers' payable as of June 30, 2001 were materially misstated by \$1,811,085.</p> <p>b) The detail of outstanding encumbrances for all funds was not reconciled with fund balance reserved for encumbrance control accounts.</p> <p>c) The deferred volume of business tax revenue at June 30, 2001 was materially misstated by \$2,163,473.</p> <p>d) The Municipality did not perform segregation between accounts payable and encumbrances.</p>	<p>For a, b and c, the corrective action of this finding is outside the Municipality's scope jurisdiction.</p> <p>Both of these functions have been segregated since August, 2003.</p>
	2001-7	<p>The following situations were observed regarding the human resource structure and functions in the Municipality:</p> <p>a) The Finance Director does not have a password to access the OCAM Accounting System. Only one employee has unique access to the OCAM System, which is the same person that originates the general journal entries.</p> <p>b) The Finance Department does not have an accounting supervisor. Therefore, there is no evidence that the general journal entries are approved by a responsible official not involved with their origination.</p> <p>c) The Internal Auditor needs additional training and experience in governmental audit and accounting.</p>	<p>We'll correct this situation during fiscal year 2003-2004.</p> <p>All entries have been always reviewed and approved by the Finance Director. At this moment we have no need for an Accounting Supervisor.</p> <p>This finding was corrected on May, 2002, with the appointment of current Internal Audit Director.</p>

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	2001-7	<p>d) Control and subsidiary accounts are not reconciled regularly and discrepancies are not reported to appropriate personnel.</p> <p>e) Management does not safeguard backup files of its financial data in a place outside the premises of the Municipality's central headquarters.</p>	<p>We'll correct this situation during fiscal year 2003-2004.</p> <p>This situation was corrected on February, 2004.</p>
	2000-1	<p>a) We noted that the Municipality of Gurabo is not keeping an accounting system as required by Generally Accepted Accounting Principles at present time. The general, capital project and special funds are kept on the cash basis of accounting. Also, the system used to record the purchase orders and contracts are not adequate; because does not provide for a segregation between the accounts payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.</p>	<p>The corrective action of this finding is outside the Municipality's scope jurisdiction.</p>
June 30, 2000	2000-2	<p>a) During the audit we noted that: The additions to the property ledger had been recorded on the cash basis, instead on the accrual basis.</p> <p>b) There is no supervision process established in order to verify if each department keeps adequate control of the property that is under its responsibility.</p>	<p>For a to d, we'll correct this situation during fiscal year 2003-2004 with our implementation of GASB-34.</p>

MUNICIPALITY OF GURABO

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003

SECTION II – FINANCIAL STATEMENTS FINDINGS

<u>Single Audit Report</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2000	2000-2	<p>c) Expenditures for financing charges of issued long-term debts, and financing charges related to the property, plan and equipment had not been recorded in the property ledger.</p> <p>d) There is no supervision process to verify if each department keeps adequate control of the inventory.</p>	

MUNICIPALITY OF GURABO

**PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2002	Section-8-Rentals Program SBGP	2002-8	<p>a) During our review of the Municipality's property register in the OCAM System we noted that the Municipality does not segregate the list of properties purchased with Section 8 Rental Program and State Block Grant Program funds to determine the Municipality's compliance with each program's equipment and real property management.</p> <p>b) The Municipality's management could not provide evidence that a physical inventory was performed.</p>	<p>This situation is presently being work upon in order to maintain adequate controls. We expect to complete our work by August, 2004.</p> <p>This situation was corrected in fiscal year 2002-2003 and we'll continue to perform annual inventory as required.</p>
June 30, 2001	UDAG	2001-8	<p>a) During fiscal year ended June 30, 2001, the Municipality disbursed two payments amounting to \$49,684 of the UDAG program to cover costs of professional services for the preparation of proposals to receive federal financial assistance from the Community Development Block Grant (CDBG) and Community Policing Services (COPS) Programs.</p> <p>b) During the fiscal year ended June 30, 2001, the Municipality disbursed five payments amounting to \$53,024 of UDAG program funds, for which the corresponding payment vouchers</p>	<p>These disbursement were made by the prior administration. Our Administration referred in writing these questioned costs to the FBI but we have not received any response from said agency. They were provided during the audit 2002-2003.</p>

MUNICIPALITY OF GURABO
PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	UDAG	2001-8	and supporting documentation were not provided.	
	Section-8 Rental Programs, SBGP and UDAG	2001-9	<p>a) During our review of the Municipality's property register we noted that the Municipality does not segregate the list of properties purchased with Section 8 Rental Program, State Block Grant Program and Urban Development Action Grant Program funds for us to determine the Municipality's compliance with each program's equipment and real property management.</p> <p>b) The Municipality's management could not provide evidence that a physical inventory was performed.</p>	<p>This situation is presently being work upon in order to maintain adequate controls. We expect to complete our work by August, 2004.</p> <p>This situation was corrected in fiscal year 2002-2003 and we'll continue to perform annual inventory as required.</p>
	UDAG	2001-10	<p>a) During August 2000, the Municipality exempted to a contractor from the payment of accrued interest amounting to \$347,740 on a loan receivable that involved funds of the Urban Development Action Grant Program (UDAG) without notification of said transaction to the United States Housing and Urban Development Agency (HUD.)</p> <p>b) During September 2000, the Municipality disbursed \$58,470 (check no.20712) of UDAG funds to Consulting & Management Group for</p>	<p>These disbursements were made by the prior administration.</p> <p>This disbursement was made on August, 2000 by prior Municipality's management.</p>

MUNICIPALITY OF GURABO

PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2003

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status informed by the Municipality</u>
June 30, 2001	UDAG	2001-10	the financial advisory services contracted in the evaluation of the transaction of the loan receivable mentioned above and which was the basis to authorize the transaction mentioned in the condition stated just above. This activity was not allowed under the provisions of the Title I of the Housing Community Development Act of 1974.	
	UDAG	2001-11	During the year ended June 30, 2001, the Municipality disbursed monies for \$177,372 of the UDAG program for which no evidence was provided to us that the Municipality required the contractors the submission of the construction workers' payrolls.	These disbursements were made by the prior administration.
June 30, 2000	Section 8 Rental Programs	2000-2	During our voucher test vouchers for \$107,183 were not available for examination.	At present time these vouchers were destroyed due to record retention policies.

MUNICIPALITY OF GURABO, PUERTO RICO

CORRECTIVE ACTION PLAN

**MUNICIPALITY OF GURABO
CORRECTIVE ACTION PLAN
SINGLE AUDIT REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2003**

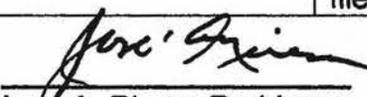
Finding Number	Finding	External Auditor Recommendation	Management Corrective Action Plan	Responsible Person	Implementation Date
03-II-1	The Municipality has not maintained adequate accounting records to account for the real and personal of all the Municipality funds; federal and non federal.	We recommend the Municipality to assign a task force or an outside consultant to identify all the real and personal property of the Municipality, assign the corresponding cost of acquisition and the market value for donated property in order to correct such accounts balances.	Prior to receipt of this finding we established a task force consisting of the Property Officer and a employee of the Internal Audit Office to carried-out a physical inventory of all personal property of the Municipality. Also, we have contracted the services of an outside consultant to carried-out the work dealing with the implementation of GASB-34 and inventory of all real property of the Municipality. We expect to complete the work of adjusting accounting and property records by August, 2004.	Quintilio Colon Finance Office Director Hector E. Machin Internal Audit Director Jose R. Gonzalez Property Officer	August, 2004

Finding Number	Finding	External Auditor Recommendation	Management Corrective Action Plan	Responsible Person	Implementation Date
03-III-1	For Section 8, HAP payments for July 2002 were issued during August 2002.	The Administrative personnel of Section 8 program shall develop efficient procedures for program year-end closing. This will ensure that HAP payments of July will be issued on time.	To correct situation reported by the external auditors, we'll perform the following: <ul style="list-style-type: none"> a. Implement the use of direct deposit by all Section 8 participants. b. Prepare debit entry for the general fund bank account in order to pay for Section 8 tenants rents and later reimburse funds when monies are received by Section 8 Programs. 	Guillermina del Valle Federal Programs Director Quintilio Colon Finance Director	August , 2004 June, 2004
03-III-2	Based on our examination, contract 2002-2003-17 and contract 2001-2002-08 did not include a clause requiring that contractors or subcontractors comply with Davis Bacon Act and DOL regulations.	We recommend the inclusion of Davis Bacon clauses in construction contracts.	We'll amended our construction contract model in Secretarial Municipality Office to incorporate Davis Bacon clauses.	Yaridsa Collazo Municipality Administrator	April, 2004

Finding Number	Finding	External Auditor Recommendation	Management Corrective Action Plan	Responsible Person	Implementation Date
03-III-3	<p>During the fiscal year ended June 30, 2003, a physical inventory of equipment was made; however, reconciliation to the equipment records were not made. The detail of equipment acquired with federal funds did not show the acquisition dates. Prior to fiscal year 2002-2003 all equipment acquired was labeled "PF". This heading means "Progamas Federales". Therefore, proper segregation of equipment pertaining to each federal program was not made. As of June 30, 2003, the Municipality has not corrected this situation.</p>	<p>We recommend that more supervision should be exercised to ensure proper records for equipment inventory, which should be reconciled with accounting record balances.</p>	<p>Prior to receipt of this finding we established a task force consisting of the Property Officer and a employee of the Internal Audit Office to carried -out a physical inventory of all personal property of the Municipality. Also, we have contracted the services of an outside consultant to carried-out the work dealing with the implementation of GASB-34 and inventory of all real property of the Municipality. We expect to complete the work of adjusting accounting and property records by August, 2004. In our action plan we'll correct all external audit findings related to the property and accounting records.</p>	<p>Quintilio Colon Finance Office Director Hector E. Machin Internal Audit Director Jose R. Gonzalez Property Officer</p>	<p>August, 2004</p>

Finding Number	Finding	External Auditor Recommendation	Management Corrective Action Plan	Responsible Person	Implementation Date
03-III-4	Based on our examination, the suspension and debarment clauses were not included in contract 2002-2003-17 and 2001-2002-08.	We recommend the inclusions of suspension and debarment clauses in every contract funded with federal assistance.	We'll amended our construction contract model in Secretarial Municipality Office to incorporate the procurement, suspension and debarment clauses.	Yaridsa Collazo Municipality Administrator	April, 2004
03-III-5	During our examination we found that the Municipality did not comply with the Housing Quality Standards requirement in that tenant owner of Section 8 Program must correct any deficiency within a specified time period. .	Continuous monitoring of those properties that failed inspections should be made. In addition, adequate follow-up on deficiencies shall be made by the Section 8 Program officials.	Since January, 2001, the Section 8 Program does not have an Inspection Officer in function. The inspections carried-out were limited and performed by a Section 8 employee without having an Inspection Officer designation. Effective April 1, 2003, we contracted an Inspection Officer in the Section 8 Program. Since then, we have been performing the required inspections. We'll assure that inspections are realized in compliance with HUD regulations.	Jahaira Sanchez Section 8 Supervisor	Immediately

Finding Number	Finding	External Auditor Recommendation	Management Corrective Action Plan	Responsible Person	Implementation Date
03-III-5	Also, it was noted that the Municipality did not comply with the federal regulations relating to annual inspections of housing properties rented under Section 8 Program	The Section 8 Program officials shall ensure that annually each tenants property is subject to an inspection according to program regulations. Close monitoring of each tenant's file should be made in order to ascertain that inspections will be made on or before contract's expiration date.	<p>Since January, 2001, the Section 8 Program does not have an Inspection Officer in function. The inspections carried-out were limited and performed by a Section 8 employee without having an Inspection Officer designation. Effective April 1, 2003, Mr. Hector A. Morales was designated as Inspection Officer in the Section 8 Program. Since then, we have been performing the required inspections. Prior to this date, a limited visual inspection was realized but evidenced of the same was not documented in the tenants file.</p> <p>We'll assure that inspections are realized in compliance with HUD regulations and that evidence of the same is documented in the tenant file.</p>	Jahaira Sanchez Section 8 Supervisor	Immediately

Corrective Action Plan Approved By: 
 Jose A. Rivera Rodriguez
 City Mayor

Date: 3/17/04



ESTADO LIBRE ASOCIADO DE PUERTO RICO
MUNICIPIO DE GURABO

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24 de marzo de 2004

Lic. Bárbara M. Sanfiozeno Zaragoza
Comisionada
Oficina del Comisionado de Asuntos Municipales
PO Box 70167
San Juan, Puerto Rico 00936-8167

Estimada licenciada Sanfiozeno:

Reciba mis saludos cordiales y del personal que laboran en el Municipio de Gurabo.

Conforme al Artículo 7.011, inciso (d) de la Ley Número 81, conocida como Ley de Municipios Autónomos, sometemos para su conocimiento y consideración los siguientes informes finales:

- a. "Audit Package" que incluye los Estados Financieros y el "Single Audit Report" al 30 de junio de 2003
- b. Informe Especial sobre el Estatus de las Recomendaciones del Contralor

Los estados financieros al 30 de junio de 2003 fueron entregados en la Oficina del Contralor de Puerto Rico el 29 de enero de 2004. De esta manera, cumplimos con la entrega de los mismos en la fecha requerida por esta oficina.

Los estados financieros auditados por la firma Nieves Velázquez & Co., reflejaron que la operación fiscal del año resultó con un exceso de ingresos sobre erogaciones de \$1,767,692 y el balance del fondo fue de \$1,909,400. También, en la Nota 13 del estado, los auditores externos hace mención que hubo un ajuste al balance de fondo general inicial o sea, al 30 de junio de 2002 de \$791,079. Esto significa que los resultados fiscales del Municipio del año fiscal anterior debieron ser \$2,210,858 comparado con \$1,419,779 que reflejaron los estados financieros auditados por la firma PKF Auditors & Consultants. Por tanto, el balance del fondo general debió ser \$141,708 comparado con un déficit acumulado de \$649,371 reflejado por los auditores externos anteriores.

Cuando nuestra Administración asumió la responsabilidad administrativa y fiscal del Municipio comenzamos con déficit acumulado de \$3,280,467 y el mismo fue eliminado en su totalidad en dos años fiscales de mi incumbencia. Desde el año fiscal 2000-2001 hasta el año 2002-2003, la operación fiscal de nuestra Administración ha generado un exceso de ingresos sobre las erogaciones de \$5,189,867. Esto demostrativo de una administración efectiva de sus recursos económicos.

A continuación los resultados económicos por año fiscal:

Año Fiscal	Cantidad de Exceso de Ingresos sobre las Erogaciones
2000-2001	\$1,211,317
2001-2002	2,210,858
2002-2003	1,767,692
Totales	\$5,189,867
Menos: Déficit Acumulado al 12/31/2000	3,280,467
Balance del Fondo General al 6/30/2003	\$1,909,400

Podemos notar que nuestra administración ha trabajado arduamente para mejorar la situación fiscal del Municipio sin desatender las necesidades ni prioridades de infraestructura y los ciudadanos gurabeños.

Esperamos que estos informes sirvan a sus propósitos.

Cordialmente,



José A. Rivera Rodríguez
Alcalde

cf: Hon. Ángel D. Agosto Vélez
Sr. Quintilio Colón Díaz
Sr. Héctor E. Machín

Anejos (2)

