

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE ISABELA**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES  
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UNIDAD DE CORREO

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS WITH ADDITIONAL  
REPORTS REQUIRED UNDER THE  
OMB CIRCULAR A-133

**MUNICIPALITY OF ISABELA**

JUNE 30, 2001

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## Report of Independent Certified Public Accountants

Mayor and Municipal Council  
Municipality of Isabela  
Isabela, Puerto Rico

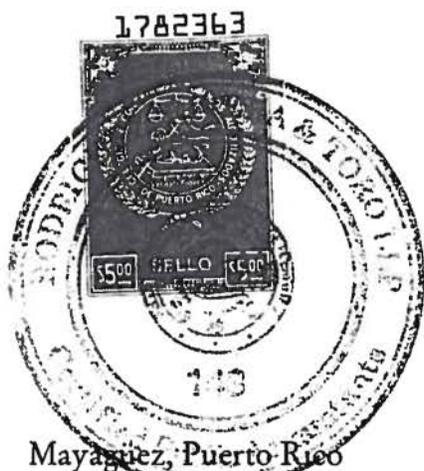
We were engaged to audit the accompanying general purpose financial statements of the Municipality of Isabela, Puerto Rico as of and for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the Municipality's management.

The accounting records of the Municipality were not maintained adequately and certain supporting data was not available for our audit. Therefore, we were not able to satisfy ourselves about the amounts included in the general purpose financial statements.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion of the general purpose financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated March 15, 2002 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our engagement.

Our engagement was conducted for the purpose of forming an opinion on the general purpose financial statements of Municipality of Isabela, Puerto Rico taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. As discussed in the first paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the general purpose financial statements. Similarly, we were unable to express, and do not express an opinion on the accompanying Schedule of Expenditures of Federal Awards.



*Rodríguez Rivera + Vora CPA*

Mayagüez, Puerto Rico  
March 15, 2002

Municipality of Isabela

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2001

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash (note C1)	\$ 505,199	\$ 2,868,188	\$ -	\$ 23,222	\$ -	\$ -	\$ 3,396,609
Receivables (net where applicable of allowance for uncollectible)							
Due from governmental entities (note C2)	747,291	618,291	-	-	-	-	1,365,582
Other	135,224	-	-	-	-	-	135,224
Due from other funds (note C3)	-	2,647,706	-	64,794	-	-	2,712,500
Restricted assets							
Cash (note C4)	-	8,428	1,084,743	3,597	-	-	1,096,768
Property, plant and equipment (note C5)	-	-	-	-	5,953,779	-	5,953,779
Amount available in debt service fund	-	-	-	-	-	1,084,743	1,084,743
Amount to be provided for retirement of general and special obligation bonds and notes	-	-	-	-	-	2,581,257	2,581,257
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	5,029,686	5,029,686
<b>Total assets and other debits</b>	<b>\$ 1,387,714</b>	<b>\$ 6,142,613</b>	<b>\$ 1,084,743</b>	<b>\$ 91,613</b>	<b>\$ 5,953,779</b>	<b>\$ 8,695,686</b>	<b>\$ 23,356,148</b>

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

Municipality of Isabela

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2001

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long- Term Debt	
<b>LIABILITIES</b>							
Vouchers and accounts payable	\$ 4,786,584	\$ 774,728	\$ -	\$ -	\$ -	\$ -	\$ 5,561,312
Accrued liabilities	61,047	16,844	-	2,455	-	-	80,346
Deposits payable	47,536	-	-	-	-	-	47,536
Due to other funds (note C3)	-	1,900,203	-	1,063,945	-	-	2,964,148
Deferred revenues (note C6)	1,898,668	47,948	-	-	-	-	1,946,616
General and special obligations bonds and notes (note C7)	-	-	-	-	-	3,666,000	3,666,000
Other long-term debts (note C7)	-	-	-	-	-	5,029,686	5,029,686
<b>Total liabilities</b>	<b>6,793,835</b>	<b>2,739,722</b>	<b>-</b>	<b>1,066,400</b>	<b>-</b>	<b>8,695,686</b>	<b>19,295,643</b>
Contingencies (note E)							
<b>FUND EQUITY AND OTHER CREDITS</b>							
Investment in general fixed assets	-	-	-	-	5,953,779	-	5,953,779
Fund balance							
Reserved for encumbrances (note A4(b))	1,945,889	360,873		580,030			2,886,792
Reserved for debt service	-	-	1,084,743	-	-	-	1,084,743
Unreserved							
Designated for subsequent years expenditures	-	3,042,018	-	(1,554,817)	-	-	1,487,201
Undesignated	(7,352,010)	-	-	-	-	-	(7,352,010)
<b>Total fund equity and other credits</b>	<b>(5,406,121)</b>	<b>3,402,891</b>	<b>1,084,743</b>	<b>(974,787)</b>	<b>5,953,779</b>	<b>-</b>	<b>4,060,505</b>
<b>Total liabilities, fund equity and other credits</b>	<b>\$ 1,387,714</b>	<b>\$ 6,142,613</b>	<b>\$ 1,084,743</b>	<b>\$ 91,613</b>	<b>\$ 5,953,779</b>	<b>\$ 8,695,686</b>	<b>\$ 23,356,148</b>

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

Municipality of Isabela

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

Year ended June 30, 2001

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues</b>					
Property taxes (note C8)	\$ 3,185,738	\$ -	\$ 875,646	\$ -	\$ 4,061,384
Municipal license taxes, licenses and permits (note C9)	1,637,305	-	-	-	1,637,305
Intergovernmental (note C10)	3,452,489	5,156,189	-	-	8,608,678
Rental income of properties	388,464	-	-	-	388,464
Fines and forfeitures	8,725	-	-	-	8,725
Interest	75,094	646	69,530	-	145,270
Other	116,504	104,972	-	-	221,476
<b>Total revenues</b>	<b>8,864,319</b>	<b>5,261,806</b>	<b>945,176</b>	<b>-</b>	<b>15,071,302</b>
<b>Expenditures</b>					
General government	4,297,203	1,467,239	-	7,113	5,771,555
Public safety	732,886	-	-	-	732,886
Highway and streets	3,005,627	-	-	-	3,005,627
Sanitation	1,014,475	175,838	-	-	1,190,313
Health	1,119,828	576,086	-	-	1,695,914
Welfare	885,436	412,232	-	-	1,297,668
Culture and recreation	639,633	489	-	-	640,122
Capital projects	-	1,827,556	-	726,500	2,554,056
Other	201,059	161,450	-	276,117	638,626
Debt service					
Principal	-	-	720,933	-	720,933
Interest	-	-	282,538	-	282,538
<b>Total expenditures</b>	<b>11,896,147</b>	<b>4,620,890</b>	<b>1,003,471</b>	<b>1,009,730</b>	<b>18,530,237</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(3,031,827)</b>	<b>640,917</b>	<b>(58,294)</b>	<b>(1,009,730)</b>	<b>(3,458,935)</b>
<b>Other financing sources (uses)</b>					
Proceeds from general obligations	-	-	-	305,000	305,000
Bond anticipation note	-	193,742	-	-	193,742
Liabilities expected to be refinanced	2,133,508	-	-	-	2,133,508
Operating transfers in	73,750	-	181,195	582,365	837,310
Operating transfers out	181,195	582,365	73,750	-	837,310
<b>Total other financing sources (uses)</b>	<b>2,026,063</b>	<b>(388,623)</b>	<b>107,445</b>	<b>887,365</b>	<b>2,632,250</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>(1,005,765)</b>	<b>252,293</b>	<b>49,151</b>	<b>(122,365)</b>	<b>(826,685)</b>
<b>Fund balance at beginning of year, as restated (note D)</b>	<b>(4,400,356)</b>	<b>3,150,596</b>	<b>1,035,592</b>	<b>(852,422)</b>	<b>(1,066,588)</b>
<b>Fund balance at end of year</b>	<b>\$ (5,406,121)</b>	<b>\$ 3,402,891</b>	<b>\$ 1,084,743</b>	<b>\$ (974,787)</b>	<b>\$ (1,893,273)</b>

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

Municipality of Isabela

COMBINED STATEMENT OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND

Year ended June 30, 2001

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
<b>Revenues</b>						
Property taxes	\$ 3,185,738	\$ 3,185,738	\$ -	\$ 646,387	\$ 875,646	\$ 229,259
Municipal license taxes, licenses and permits	2,426,000	1,637,305	(788,695)	-	-	-
Intergovernmental	3,137,308	3,452,489	315,181	-	-	-
Rental income of properties	370,200	388,464	18,264	-	-	-
Fines and forfeitures	4,000	8,725	4,725	-	-	-
Interest	40,000	75,094	35,094	-	69,530	69,530
Other	2,350,400	116,504	(2,233,896)	-	-	-
<b>Total revenues</b>	<b>11,513,646</b>	<b>8,864,319</b>	<b>(2,649,327)</b>	<b>646,387</b>	<b>945,176</b>	<b>298,789</b>
<b>Expenditures</b>						
General government	2,836,847	2,451,197	385,649	-	-	-
Public safety	834,932	740,782	94,150	-	-	-
Highway and streets	3,204,406	3,092,348	112,058	-	-	-
Sanitation	1,060,010	1,034,859	25,151	-	-	-
Health	1,522,184	1,231,554	290,630	-	-	-
Welfare	903,669	885,779	17,890	-	-	-
Culture and recreation	688,543	648,252	40,290	-	-	-
Other	408,056	329,992	78,064	-	-	-
Debt service						
Principal	-	-	-	547,000	567,000	(20,000)
Interest	-	-	-	99,387	255,276	(155,889)
<b>Total expenditures</b>	<b>11,458,646</b>	<b>10,414,763</b>	<b>1,043,883</b>	<b>646,387</b>	<b>822,276</b>	<b>(175,889)</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>55,000</b>	<b>(1,550,443)</b>	<b>(1,605,443)</b>	<b>-</b>	<b>122,901</b>	<b>122,901</b>
<b>Other financing sources (uses)</b>						
Operating transfers in	-	73,750	73,750	-	-	-
Operating transfers out	55,000	52,263	2,737	-	73,750	(73,750)
<b>Total other financing sources (uses)</b>	<b>(55,000)</b>	<b>21,487</b>	<b>76,487</b>	<b>-</b>	<b>(73,750)</b>	<b>(73,750)</b>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<b>\$ -</b>	<b>\$ (1,528,956)</b>	<b>\$ (1,528,956)</b>	<b>\$ -</b>	<b>\$ 49,151</b>	<b>\$ 49,151</b>

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

The Municipality of Isabela was founded in 1819. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The mayor is the executive officer and the legislative branch consists of twelve members of the Municipality Council. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

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

1. *Financial reporting entity*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

reporting entity's financial statements to be misleading or incomplete. The basic criteria for deciding financial accountability are anyone of the following:

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

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

*2. Basis of presentation*

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds and account groups are reported by generic classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes fund types and account groups that use different basis of accounting and interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by:

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

*a. Governmental Funds*

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

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

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

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

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

*b. Accounts Groups*

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

**General Fixed Assets Accounts Group.** This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Accounts Group. Such

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets are capitalized. No depreciation is provided on General Fixed Assets. Equipment is stated at cost, and all land and buildings are recorded at estimated (bid award) values. Donated fixed assets are valued at their estimated fair market value on donation date.

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

3. *Basis of accounting*

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

a. *Governmental Funds*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

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

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

4. *Budgetary data*

a. *Budget policy*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

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

b. *Encumbrances*

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

5. *Receivables*

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

6. *Inventories*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

*7. Insurance coverage*

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

*8. Compensated absences*

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

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

*9. Interfund transactions*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

*10. Use of estimates*

The preparation of the general purpose financial statement in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*11. Fund balance*

*a. Reservation of fund balance*

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

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

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

*b. Unreserved fund balance designations*

Represent tentative plans or commitments of governmental resources.

*12. Future adoption of accounting pronouncements*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

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

The impact of these statements on the Municipality's general purpose financial statement has not yet been determined.

NOTE B - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET STATUTORY BASIS TO GAAP

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types has been prepared in accordance with GAAP and the Combined Statement of Revenues and Expenditures Budget and Actual (Budget-Statutory) - General and Debt Service Fund has been prepared on the budgetary basis, which is different from GAAP.

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Budgetary - statutory basis)	\$ (1,528,956)
Add: Revenues recognized under GAAP basis but not under Budgetary-Statutory basis	2,133,508
Current year encumbrances recognized under Budgetary-Statutory basis not under GAAP basis	535,494
Less: Expenditures accrued under GAAP basis but not budgeted by the Municipality during current period	(2,053,583)
Current year payments of prior year encumbrances recognized under GAAP basis not Budgetary-Statutory basis	<u>(92,228)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ (1,005,765)</u>

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

NOTE C - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash*

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. At present, no certificates of deposits exist. The method of allocating interest earned on pooled cash investments among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Deposits were with the contracted depository bank in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by Puerto Rico Treasury Department in its Trust Division in the name of the depository bank.

2. *Due from State governmental entities*

The Municipality's receivables from governmental entities as of June 30, 2001 follow:

Municipal Revenue Collection Center (CRIM)	<u>\$ 747,291</u>
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3. *Due from (to) other funds*

The amount presented as due from (to) other funds represent cash pertaining to other funds pooled in the general fund bank account and interfunds transfers and/or borrowings between funds.

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

4. *Restricted assets-cash*

Restricted cash balance in the special revenue and capital project fund represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law. Interest earned by this sinking fund during the fiscal year 2000-2001 amounted to \$69,530.

5. *Property, plant and equipment*

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

	<u>Equipment</u>	<u>Real Estate</u>	<u>Total</u>
Balance at June 30, 2000	\$ 3,970,891	\$ 1,607,903	\$ 5,578,794
Additions	252,840	125,001	377,841
Retirements	<u>2,856</u>	<u>-</u>	<u>2,856</u>
Balance at June 30, 2001	<u>\$ 4,220,875</u>	<u>\$ 1,732,904</u>	<u>\$ 5,953,779</u>

6. *Deferred Revenues*

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

Municipal license taxes (note C9)	\$1,151,377
Municipal Revenue Collection Center (Property Tax) (note C8)	<u>747,291</u>
	<u>\$1,898,668</u>

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

7. Long-term debts

a. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2001 amounted to \$3,666,000. All these obligations are serviced by the Governmental Development Bank of Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental

Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long term debt issued to finance operations of the general fund are made through retentions to intergovernmental revenues by the Municipal Revenue Collection Center.

A detail of the general and special obligation bonds and notes as of June 30, 2001 follows:

<u>Original Amount</u>	<u>Description</u>	<u>Maturity</u>	<u>Rate</u>	<u>Outstanding</u>
\$ 157,000	Public improvement bond	January 1 <sup>n</sup> , 2002	5.0%	\$ 13,000
1,700,000	Special obligation bond	July 1 <sup>n</sup> , 2003	Variable	470,000
505,000	Special obligation notes	July 1 <sup>n</sup> , 2009	8%	350,000
305,000	General obligation bond	July 1 <sup>n</sup> , 2010	8%	285,000
1,510,000	General obligation notes	July 1 <sup>n</sup> , 2005	7%	1,075,000
525,000	General obligation bonds	January 1 <sup>n</sup> , 2021	4.5%	483,000
1,160,000	Special obligation bonds	July 1 <sup>n</sup> , 2009	7%	990,000
<u>\$ 5,862,000</u>				<u>\$ 3,666,000</u>

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

The annual requirements to amortize all long-term obligations outstanding other than other long-term obligations as of June 30, 2001 follows:

Maturing at June 30,	General and Special Obligations Bonds and Notes	
	Principal	Interest
2002	\$ 643,000	\$ 221,158
2003	686,000	208,160
2004	467,000	157,490
2005	508,000	124,575
2006	218,000	88,765
Thereafter	1,144,000	278,790
Totals	<u>\$3,666,000</u>	<u>\$1,078,938</u>

b. *Other long-term debts*

Other long-term debts are comprised of the following:

Liabilities expected to be refinanced (through \$3,955,000 special obligation loan):

Puerto Rico Department of Treasury - Income Tax Withheld	\$ 1,048,100	
Internal Revenue Service - Social Security	797,375	
Puerto Rico Retirement System	708,734	
Puerto Rico Department of Labor (Unemployment benefits paid by the Commonwealth of Puerto Rico in behalf of the Municipality)	202,195	
Puerto Rico Water and Sewer Authority	130,206	
Puerto Rico Telephone Company	85,452	
Puerto Rico Electric Power Authority	37,807	
U.S. Department of Labor	7,061	\$ 3,016,930

Liabilities expected to be refinanced (through a special obligation loan):

Municipal Revenue Collection Center (notes C8 and F)	203,767	
	<u>3,220,697</u>	

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

Compensated absences (note A8)	\$ 1,437,247
Bond anticipation note	193,742
Claims and judgements	<u>178,000</u>
	<u>\$ 5,029,686</u>

As of June 30, 2001 the Municipality has issued Bond Anticipation Notes (BAN's) in the amount of 193,742. The Municipality intends refinancing of the BAN's on a long-term basis. It has demonstrated its intention and its ability to consummate by a financing agreement with the Governmental Development Bank of Puerto Rico (GDB) which does not expire within one year from the date of the combined balance sheet. The refinancing will be done by issuing general obligation bonds of \$935,000 through GDB. Accordingly, the amount of \$193,742 will not require the use of available financial resources and has been classified as other long-term debt.

c. *Changes in general long-term debts*

	Balance at June 30, 2000	Additions	Retirements	Other	Balance at June 30, 2001
General and special obligation bonds and notes	\$4,458,000	\$ 305,000	\$ 592,000	\$ 505,000	\$ 3,666,000
Other long-term debts	<u>1,528,527</u>	<u>3,630,092</u>	<u>128,933</u>	<u>-</u>	<u>5,029,686</u>
Total	<u>\$5,986,527</u>	<u>\$ 3,935,092</u>	<u>\$ 720,933</u>	<u>\$ 505,000</u>	<u>\$ 8,695,686</u>

8. *Property taxes*

The Municipal Revenue Collection Center (CRIM) (a state governmental agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Law (Law 83 of August 1991). The tax levied on property is determined by the Municipal Government based on limits established by the Commonwealth

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

Legislature. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return which must be filed with the CRIM by May 15<sup>th</sup> of each year. Real property is assessed by the CRIM. The tax is general assessed on January 1<sup>st</sup> on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15<sup>th</sup>. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Property taxes are recorded as revenues by the Municipality in the year of receipt.

The CRIM advance funds to the Municipality based on an estimate of the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned for the repayment of the bond obligations. As part of the requirements of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities. This distribution includes advances of property tax and income derived from other subsidies from the state government. As of June 30, 2000 the Municipality has a net payable to the CRIM of \$203,767 which is recorded as other long term debt in the general long-term debt accounts group. This debt was subsequently refinanced by the Municipality; see related note (F). For the fiscal year 2000-2001 the CRIM performed final liquidation and determined that the Municipality has a net receivable of \$747,291 which is recorded as deferred revenue since it is measurable but not available as required by generally accepted accounting principles.

9. *Municipal license taxes, licenses and permits*

Municipal license taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15<sup>th</sup>. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1<sup>st</sup> and January 1<sup>st</sup> following April 15<sup>th</sup> filing due date), but the discount is not allowed.

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

10. *Intergovernmental revenues*

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

11. *Retirement plan*

a. *Plan description*

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

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

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

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

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

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

*b. Funding policy*

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

The Municipality's actual contribution for the current year, \$338,554, is equal to the required contribution.

NOTE D - FUND BALANCE RESTATEMENT

Fund balance as of July 1, 2000 of the General, Special Revenue, Debt Service and Capital Project Funds have been restated to correct transactions erroneously recorded in previous years:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Balance as of beginning of year, as previously reported	\$ (2,717,386)	\$ 1,530,359	\$ 1,641,880	\$ 830,320
Prior period adjustments	<u>(1,682,970)</u>	<u>1,620,239</u>	<u>(606,288)</u>	<u>(1,682,742)</u>
Balance at the beginning of year, as restated	<u>\$ (4,400,356)</u>	<u>\$ 3,150,598</u>	<u>\$ 1,035,592</u>	<u>\$ (852,422)</u>

NOTE E - CONTINGENCIES

1. *Federal and State grants*

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional unrecorded liabilities will arise from audits previously performed or to be performed.

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

NOTE E - CONTINGENCIES - Continued

2. *Litigations*

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance. Other cases are at discovery stage on which the legal counsels have not determined an outcome and other cases will not be covered by insurance. However, it is the opinion of the Municipality and the legal counsels that, based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

3. *Other*

The Puerto Rico Solid Waste Authority informed the Municipality a \$307,994 debt arising from a lease of heavy equipment to the Municipality in previous years. The Municipality appealed the debt since, as stated by municipal management, the contract agreement was not approved by the Municipal Council and there was no budgetary credits in the accounting records to cover the liability payments. The ultimate outcome of this matter is undeterminable.

NOTE F - SUBSEQUENT EVENTS

1. Liabilities expected to be refinanced as of June 30, 2001:

- a. Subsequent to June 30, 2001 the Municipality issued a \$3,455,000 operational loan through the Governmental Development Bank for Puerto Rico to refinance certain short-term and long-term liabilities. As of June 30, 2001 short-term liabilities expected to be refinanced were reclassified as long-term liabilities and recorded in the general long-term debt account group since the Municipality has demonstrated its intention and its ability to consummate the financing agreement, which does not expire within one year from the date of the combined balance sheet.

Municipality of Isabela

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

NOTE F - SUBSEQUENT EVENTS - Continued

- b. As determined by the Municipal Revenues Collection Center (CRIM) the amount of property tax revenues and income derived from other subsidies from the state government of Puerto Rico was less than the advanced estimated revenues by \$203,767 as of June 30, 2000. The Municipality will refinance this debt balance on a long term basis under the provision of Law No. 42 of January 26, 2000, which was enacted to allow the CRIM to recover the accumulated debt from the Municipalities of Puerto Rico. The refinancing will be done through a special loan to be repaid from .48% of the net increase of subsidies provided by the Commonwealth government to the Municipality under the referred law. The Municipal Council of Isabela authorized the refinancing agreement with Ordinance #24 (2001-2002 Series) approved on July 12, 2001.
2. On March 2002 the Municipality issued through the Governmental Development Bank of Puerto Rico a \$985,000 general obligation bond for the acquisition of equipment.

**SUPPLEMENTAL INFORMATION**

Municipality of Isabela

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Grantor's Number (note C)	Expenditures (note A)
<u>U.S. Department of H.U.D.</u>			
Major Program:			
Passed through the Office of Commissioner of Municipal Affairs:			
Community Development Block Grant - State's Program	14.228	FD-32 AF-32	\$ 1,148,345
Nonmajor programs:			
Direct Programs:			
Section 8 Housing Choice Vouchers	14.871	N/A	289,275
			<u>1,437,620</u>
<u>U.S. Department of Agriculture</u>			
Major program:			
Direct Program:			
Community Facility Loans and Grants	10.766	N/A	363,009
Nonmajor program:			
Passed through the P.R. Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	13,532
			<u>376,541</u>
<u>U.S. Department of Health and Human Services</u>			
Nonmajor program:			
Passed through the Puerto Rico Governor Office: (Oficina de Servicios Al Niño y Desarrollo Cultural - SENDEC)			
Child Care and Development Block Grant	93.575	N/AV	155,929
<u>U.S. Department of Justice</u>			
Nonmajor programs:			
Passed through the P.R. Department of Justice:			
Public Safety Partnership and Community Policing Grant (COPS)	16.710	N/AV	114,901
Local Law Enforcement Block Grant	16.592	2000-LB-VX-1085	71
			<u>114,972</u>
Total federal awards expenditures:			<u>\$ 2,085,062</u>

The accompanying notes are an integral part of this schedule.

Municipality of Isabela

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FEDERAL CFDA NUMBER

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

NOTE C - PASS -THROUGH GRANTOR'S NUMBER

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

Municipality of Isabela

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2001

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

Description	Special Revenue Fund	Capital Projects Fund
14.228	\$ 1,080,006	\$ 68,339
14.871	289,275	-
10.766	-	363,009
10.558	13,532	-
93.575	155,929	-
16.710	114,901	-
16.592	71	-
Total federal awards expenditures:	1,653,714	431,348
Total state funds awards expenditures and other nonfederal expenditures:	2,967,176	578,382
Total expenditures, general purpose financial statements	\$ 4,620,890	\$ 1,009,730

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

Mayor and Municipal Council  
Municipality of Isabela  
Isabela, Puerto Rico

We were engaged to audit the general purpose financial statements of the Municipality of Isabela as of and for the year ended June 30, 2001, and have issued our report thereon dated March 15, 2002. We did not express an opinion on the financial statements due to inadequacy of accounting records and reports.

*Compliance*

As part of obtaining reasonable assurance about whether Municipality of Isabela's general purpose financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings and Questioned Costs as item 2001 II-2. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated March 15, 2002.

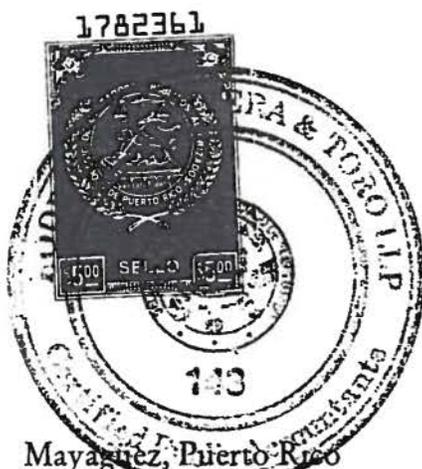
*Internal Control Over Financial Reporting*

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

over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Isabela's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2001 II-1, 2001 II-3, 2001 II-4, 2001 II-5 and 2001 II-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2001 II-1, 2001 II-3 and 2001 II-6 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated March 15, 2002.

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



Mayagüez, Puerto Rico  
March 15, 2002

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

Mayor and Municipal Council  
Municipality of Isabela  
Isabela, Puerto Rico

*Compliance*

We have audited the compliance of Municipality of Isabela with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to its major federal programs for the year ended June 30, 2001. Municipality of Isabela's major federal programs are identified in the Summary of Auditor's Results of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Municipality of Isabela's management. Our responsibility is to express an opinion on Municipality of Isabela's compliance based on our audit.

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

In our opinion the Municipality of Isabela complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances on noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying Schedule of Findings and Questioned Costs as item 2001 III-1.

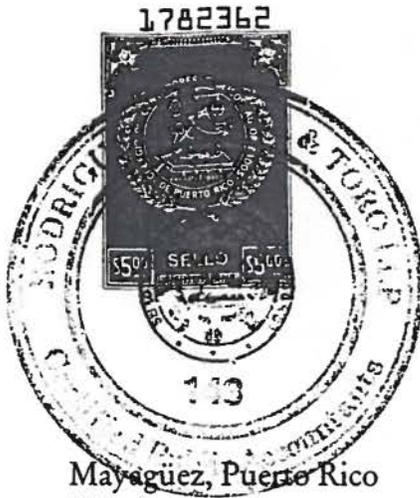
#### *Internal Control Over Compliance*

The management of the Municipality of Isabela is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Isabela's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, on our judgment could adversely affect the Municipality of Isabela's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2001 III-1, 2001 III-2, 2001 III-3, 2001 III-4 and 2001 III-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered item 2001 III-3 to be material weaknesses. We noted certain immaterial instances of noncompliance that we have reported to management of the Municipality of Isabela in a separate letter dated March 15, 2002.

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



Mayaguez, Puerto Rico  
March 15, 2002

Municipality of Isabela

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year ended June 30, 2001

I. Summary of audit results:

**Part I - Financial Statements**

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

**Part II - Federal Awards**

- |  |   |  |
|--|---|--|
| 1. Reportable conditions reported:   | <input checked="" type="checkbox"/> Yes                 | <input type="checkbox"/> No                    |
| 2. Reportable conditions reported as a material weakness                           | <input checked="" type="checkbox"/> Yes                 | <input type="checkbox"/> No                    |
| 3. Type of report on compliance for major programs                                 | <input checked="" type="checkbox"/> Unqualified opinion | <input type="checkbox"/> Qualified opinion     |
|  | <input type="checkbox"/> Adverse opinion                | <input type="checkbox"/> Disclaimer of opinion |
| 4. Audit findings required to be reported under Section 510(a) of Circular A - 133 | <input checked="" type="checkbox"/> Yes                 | <input type="checkbox"/> No                    |

5. Major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant - State's Program
10.766	Community Facility Loans and Grants

- |  |   |  |
|--|---|--|
| 6. Dollar threshold used to distinguish Type A and Type B programs | <input checked="" type="checkbox"/> \$300,000 | <input type="checkbox"/> \$3,000,000   |
|  | <input type="checkbox"/> \$30,000,000         |  |
| 7. Low-risk auditee  | <input type="checkbox"/> Yes                  | <input checked="" type="checkbox"/> No |

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Area: Accounting records and reports:

Reference number 2001 II-1

Condition and criteria:

The Municipality has not properly implemented or established internal controls and procedures to maintain adequate, complete and reconciled set of accounting records and reports. Our tests revealed that account balances used to prepare the computerized general purpose financial statements were not analyzed and/or adjusted in order to present accurate and reconciled amounts including the supporting documentation. Conditions noted were the following: cash in banks accounts were not reconciled with the accounting records, unsupported assets balances, accounts payable were not reconciled with subsidiary ledgers, interfund transactions between centralized accounting system and federal office accounting records were not analyzed or reconciled, unreconciliable fixed assets records and unbalanced computerized funds trial balance.

Cause and effect:

The Municipality is only recording current year transactions and financial data related to revenues, payroll, purchase and expenditures and has not properly analyzed and determined correct carryover balances of different governmental funds accounts from prior years due to the inadequacy of the accounting records. As a result, certain balance sheet accounts present material unidentified transactions on the trial balance. In addition, there is no proper reconciliation procedures to assure adequacy and completeness between the accounting records and reports including general ledger, subsidiary records, bank reconciliations,

Municipality of Isabela

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2001

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

Area: Accounting records and reports: (continued)

Reference number 2001 II-1

monthly and annual reports and other financial information. This matter is considered a material weakness. Therefore, the accounting records are inadequate and do not permit the application of alternative auditing procedures in order to express an opinion on whether the general purpose financial statements presented fairly the financial position of the Municipality as of June 30, 2001.

Recommendation:

A complete and immediate review of the controls and internal control procedures over financial records and reports should be performed by the Municipality and by OCAM (State Regulatory Agency) in order to correct actual procedures in order to provide management with a complete, accurate and reliable set of accounting records and reports. Those procedures should include, at least, the following:

- a. Reconciliation procedures between accounting records, general ledger, subsidiary records and manually accounting records must be done at least once a week to procure proper accountability of transactions.
- b. Reconciliation of centralized accounting records with federal financial assistance records.

Municipality of Isabela

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2001

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

Area: Accounting records and reports: (continued)

Reference number 2001 II-1

- c. Reconciliation with financial accounts that includes information that is maintained by the governmental agencies including Governmental Development Bank of Puerto Rico, the Municipal Revenue Collection Center and Rural Development Office.

Area: Budget:

Reference number 2001 II-2

Condition and criteria:

As required by the Autonomous Municipal Law of 1981, as amended, the Municipality should maintain adequate procedures to avoid the excess of expenditures over appropriations in the general fund budget. Our tests over the budget and costs control procedures disclosed the following:

- a. There are several instances of over-expenditures over budgets in the general fund due to unbudgeted charges for public relations, communications, leasehold improvements, purchase of equipment, utilities and miscellaneous expenditures.

Municipality of Isabela

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2001

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

Area: Budget (Continued):

Reference number 2001 II-2

- b. The general purpose financial statements disclosed that the fiscal period 2000-2001 operations ended with an operational budgetary deficit of (\$1,528,956) and a cumulative fund deficit (GAAP Fund) of (\$7,352,010).

Cause and effect:

Failure to properly implement and follow the established internal controls and procedures over budgetary operations, which caused a non-compliance with Municipal laws and regulations. The Municipality overestimated by \$2,649,327 the 2000-2001 revenues under the categories of Municipal license taxes, licenses and permits and the other income accounts causing a shortage on actual revenues of (\$2,649,327).

Recommendation:

Procedures should be established and monitored to assure compliance with budgetary requirements as stated by the Municipal Law. The Municipality must verify revenues estimates and ascertain that estimates are in accordance with its operational capacity. The Municipality's general fund budget 2002-2003 should include a budgetary account to amortize the current operational deficit as required by the Municipal Law.

Municipality of Isabela

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued**

Year ended June 30, 2001

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

Area: Property, plant and equipment:

Reference number 2001 II-3

Condition and criteria:

An adequate review of the fixed assets inventory list has not been completely performed. In order to ascertain that property is properly accounted, valued and that fixed assets records are complete, all property actually acquired or disposed should be immediately recorded (as addition or retirements) in the subsidiary records and general ledger. Also, the subsidiary should be reconciled on a monthly basis. Our audit revealed the following additional exceptions:

- a. The Municipality does not maintain records of construction in progress, leasehold improvements and real estate properties.
- b. Fixed Assets accounts have not been created in the general accounting module, therefore there is no link of financial data between this module and the fixed assets module.
- c. Municipality's properties presented in subsidiary record is not reconciled with any other accounting record as a procedure to present all owned properties at their specific values and categories.

Cause and effect:

Failure to properly perform procedures to verify that properties were properly valued and classified may result in an inaccurate, incomplete and unreliable property, plant and equipment subsidiary. This is considered a material weakness.

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Area: Property, plant and equipment: (Continued)

Reference number 2001 II-3

Recommendation: Responsible personnel must ensure that necessary internal control and procedures established are implemented and followed to ensure a reliable, accurate and complete fixed assets record of all owned properties.

Area: Purchasing, receiving and cash disbursements:

Reference number 2001 II-4

Condition and criteria: Our examination of internal controls and procedures over cash disbursements revealed the following deficiencies:

<u>Deficiency</u>	<u>Cases</u>
a. Purchase of goods without the evidence of quotations or three quotations as required with law	3
b. Missing evidence of clerical check and cancellation of supporting documents to prevent its reuse.	5
c. No signature of Finance Director, Official Payor and/or Pre-Intervention Officer on voucher for payment	3
d. Supporting documents for tested bids were not provided for examination.	2

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

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

Reference number 2001 II-4

	<u>Deficiency</u>	<u>Cases</u>
	d. Cash disbursement could not be traced to general ledger due to incompleteness of posting transactions on accounting record.	9
	e. Cash disbursement posted in Disbursement Register and/or General Ledger is different from amount disclosed on voucher for payment.	2
	f. Purchase order was prepared after receipt of invoice.	1
Cause and effect:	Failure to properly execute established internal control and procedures may result in noncompliance with applicable laws and regulations.	
Recommendation:	Responsible personnel of payments process must ensure established internal controls and procedures are adequately followed.	

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Area: Payroll and related liabilities:

Reference number 2001 II-5

Condition and criteria: Our examination of internal controls and procedures over a sample of twenty five (25) employees' files revealed the following deficiencies:

Deficiency	Cases
a. No evidence found of the Eligibility Form (I-9)	4
b. No evidence of Good Behavior Certificate and a copy of social security card	1
c. Issued check dated before working period and in other case wage paid was not in agreement with stated wages per employee contract.	2
d. Municipal employee was not physically identified or evidence of ceased job or resignation was noted in file.	3

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

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

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Area: Cash area:

Reference number 2001 II-6

Condition and criteria: During our examination of internal controls and procedures related with the cash area we noted the following deficiencies:

Deficiency	Cases
a. Bank reconciliation was not prepared.	1
b. None of the bank reconciliations were signed by either preparer, Municipal Treasurer and Finance Director as evidence of revision and agreement with cash balance.	48
c. Bank reconciliations present outstanding checks with issuance date of one year or older.	5
d. Cash in bank account was not created on Municipality's chart of account.	1
e. Bank conciliations were incomplete since the adjusted cash balance was not reconciled with book balance on computerized accounting system.	48

Cause and effect: Lack of training or preparation on cash reconciliations using the computerized accounting system prevented accounting personnel of preparation of bank reconciliations using system and causing cash balances per books not properly adjusted. This is considered a material weakness.

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Area: Cash area (Continued):

Reference number 2001 II-6

Recommendation:

Bank reconciliations process using computerized accounting system must commence promptly after training. Finance Director must coordinate necessary training with governmental agency responsible of maintenance of accounting system (OCAM) and supervise that bank reconciliations are properly prepared with sufficient time to review and adjust cash balances with books.

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

III. Findings and questioned costs for federal awards:

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs								
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount										
2001 III-1	US Department of HUD: Community Development Block Grant -- State's Program CFDA 14.228	Procurement, Suspension and Debarment; Davis-Bacon Act	-	\$ -	-	\$ -	-	\$ -	Condition and criteria: In our examination of internal controls and procedures related with the procurement process we noted the following deficiencies:	\$ -								
									<table border="1"> <thead> <tr> <th>Deficiencies</th> <th>Cases</th> </tr> </thead> <tbody> <tr> <td>a. Required contract clauses for construction project were missing.</td> <td>1</td> </tr> <tr> <td>b. Required contractor's certification for suspension and debarment was not present for examination.</td> <td>1</td> </tr> <tr> <td>c. Required reviews of wages paid in accordance with federal rates tables and interviews with contractor's employees were not performed by Municipality.</td> <td>1</td> </tr> </tbody> </table>	Deficiencies	Cases	a. Required contract clauses for construction project were missing.	1	b. Required contractor's certification for suspension and debarment was not present for examination.	1	c. Required reviews of wages paid in accordance with federal rates tables and interviews with contractor's employees were not performed by Municipality.	1	
Deficiencies	Cases																	
a. Required contract clauses for construction project were missing.	1																	
b. Required contractor's certification for suspension and debarment was not present for examination.	1																	
c. Required reviews of wages paid in accordance with federal rates tables and interviews with contractor's employees were not performed by Municipality.	1																	
									Cause and effect: Lack of adequate procurements procedures resulted in noncompliance with applicable laws, regulations and federal requirements.									

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs						
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount								
2001 III-2	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Allowable Cost / Cost Principles	61	\$ 764,720	25	\$1,070,651	9	\$ 261,818	<p>Recommendation: Responsible personnel must ensure that adequate procedures and controls are established, implemented and properly executed. Also accounting personnel should procure that procurement procedures are carried on as specified by law, regulations and federal requirements. Federal Programs Director must procure that required interviews and reviews to wages paid are done for every construction project financed with federal funds as stated on Davis-Bacon Act.</p> <p>Condition and criteria: Our compliance test of internal controls and procedures related with the administration of the SBGP disclosed the following deficiencies:</p> <table border="1"> <thead> <tr> <th>Deficiencies</th> <th>Cases</th> </tr> </thead> <tbody> <tr> <td>a. Voucher for payment and/or supporting documents were not canceled to prevent its reuse.</td> <td>9</td> </tr> <tr> <td>b. Required authorized signature from Pre-intervention Department was missing in document.</td> <td>2</td> </tr> </tbody> </table>	Deficiencies	Cases	a. Voucher for payment and/or supporting documents were not canceled to prevent its reuse.	9	b. Required authorized signature from Pre-intervention Department was missing in document.	2	\$ -
Deficiencies	Cases															
a. Voucher for payment and/or supporting documents were not canceled to prevent its reuse.	9															
b. Required authorized signature from Pre-intervention Department was missing in document.	2															

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2001 III-3	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Period of availability of federal funds, 24 CFR 85.20(b)(2)	-	\$ -	-	\$ -	-	\$ -	<p><b>Cause and effect:</b> Omissions to established internal controls and procedures may result in non-compliance with applicable laws, regulations and federal requirements.</p> <p><b>Recommendation:</b> Responsible personnel must ensure that established internal controls and procedures are adequately followed in order to comply with applicable laws, regulations and federal requirements.</p> <p><b>Condition and criteria:</b> Our test to verify compliance with controls over financial records and reports disclosed a difference of \$52,081 when compared to expenditures reported on SBGP program for the fiscal period 2000-2001 with accounting records on computerized accounting system. The same expenditure amount provided by Federal Programs Office disclosed difference of \$9,051 when compared to the reports received from Office of Commissioner of Municipal Affairs (OCAM).</p>	\$ -

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2001 III-4	US Department of HUD: Community Development Block Grant - State's Program CFDA 14.228	Cash Management	-	\$ -	-	\$ -	-	\$ -	<p><b>Cause and effect:</b> There are no proper internal accounting controls over financial records and reports. This is considered a material weakness.</p> <p><b>Recommendation:</b> A complete and immediate review of internal controls and procedures over financial records and reports at the federal programs office is necessary to assure accuracy of financial data and compliance with program requirements.</p> <p><b>Condition and criteria:</b> In our examination of controls and procedures used in the administration of federal funds, we noted that in several occasions cash balances exceeded the limit of \$5,000 over the period of three working days as specified by the Circular 1075 of the U.S. Department of Treasury.</p>	\$ -

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2001 III-5	US Department of Agriculture: Community Facility Loans and Grants CFDA #10.766	Procurement, Suspension and Debarment; Davis-Bacon Act	-	\$ -	-	\$ -	-	\$ -	<p><b>Cause and effect:</b> Cash disbursements related to reimbursements funds received from grantor were made in few instances, for less amount than deposited funds and in other instances, those payments were issued several days after receipt of reimbursement which caused that cash balance exceeded the \$5,000 cash limit and over the three working days period.</p> <p><b>Recommendation:</b> The Municipality should review established controls and procedures to minimize the time lapsing between receipts and use of federal funds to procure compliance with applicable laws, regulations and federal requirements.</p> <p><b>Condition and criteria:</b> In our examination of internal controls and procedures related with procurement process we noted the following deficiencies:</p>	\$ -

Municipality of Isabela

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued

Year ended June 30, 2001

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

Reference number	Program	Regulation/ Requirement	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
									<p style="text-align: center;"><u>Deficiencies</u>                      <u>Cases</u></p> <p>a. Required contractor's certification for suspension and debarment was not present for examination.                      1</p> <p>b. Required reviews of wages paid in accordance with federal rates tables and interviews with contractor's employees were not performed by Municipality.                      1</p> <p><b>Cause and effect:</b> Lack of adequate procurement procedures resulted in a noncompliance with applicable laws, regulations and federal requirements.</p> <p><b>Recommendation:</b> Responsible personnel must ensure that adequate procedures and controls are established, implemented and properly executed to procure that procurement procedures are carried on as specified by related laws, regulations and requirements. In addition, the Federal Program's Director must procure that required interviews and reviews to wages paid are done for every construction project financed with federal funds as stated on Davis-Bacon Act.</p>	
										<p>Total questioned costs                      \$ -</p>

Municipality of Isabela

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
2000	2000-1	The Municipality's current accounting system does not comply with requirements established in the Regulation on Basic Standards for the Municipalities of Puerto Rico.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-2	The Municipality has not established sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-6 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-3	The Municipality current accounting system does not comply with the requirements established in the Regulation on Basic Standards for the Municipalities in Puerto Rico.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-6 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Isabela  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
2000	2000-4	The Municipality does not maintain adequate records of its outstanding long-term obligations.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-5	The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's Central Accounting Department.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 III-3 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-6	The Municipality is responsible for the administration and collection of sources of revenues like Municipal License Tax.	Finding was cleared by OCAM.
2000	2000-7	During our examination of the fixed assets, certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-3 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Isabela

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
2000	2000-8	From 16 personnel files selected for examination certain exceptions were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-5 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-9	From 25 files selected for examination amounting to \$196,596 certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-4 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-10	From 20 files selected for certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM).

Municipality of Isabela  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
2000	2000-11	Under the Municipality's current accounting system, there is no segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when purchase order is issued.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.
2000	2000-12	The Municipality has approved an indirect cost allocation plan.	Finding was cleared by OCAM.
2000	2000-13	From 11 contract files selected for examination the following deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). Similar situation was reported in finding number 2001 III-1 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-1	The Municipality's current accounting system does not comply with requirements established in the Regulation on Basic Standards for Municipalities of Puerto Rico.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Isabela

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
1999	1999-2	The Municipality has not established sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-6 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-3	The Municipality current accounting system does not comply with the requirements established in Regulation on Basic Standards for Municipalities of Puerto Rico.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-6 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-4	The Municipality does not maintain adequate records of its outstanding long-term obligations.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Isabela

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
1999	1999-5	The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's Central Accounting Department.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 III-3 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-6	The Municipality is responsible for the administration and collection of sources of revenues like Municipal License Tax.	Finding was cleared by OCAM.
1999	1999-7	During our examination of the fixed assets, certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-8	From 40 personnel files selected for examination certain exceptions were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-5 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Isabela

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
1999	1999-9	From 123 files selected for examination amounting to \$603,940, certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-4 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-10	From 20 files selected for examination certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM).
1999	1999-11	Under the Municipality's current accounting system, there is no segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when purchase order is issued.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). See current year finding number 2001 II-1 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-12	The Municipality has approved an indirect cost allocation plan.	Finding was cleared by OCAM.

Municipality of Isabela

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Year ended June 30, 2001

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

Fiscal year ended June 30,	Finding No.	Condition	Status
1999	1999-13	From 21 contract files selected for examination certain deficiencies were noted.	Finding was cleared by Office of Commissioner of Municipal Affairs (OCAM). Similar situation was reported in finding number 2001 III-1 in the accompanying Schedule of Findings and Questioned Costs.
1999	1999-14 and 1999-15	The Municipality has not established effective cash management procedures.	Finding considered closed as per condition in Single Audit Act OMB-A133 were no response was obtained from grantor in past two audits nor management presented a corrective action to eliminate this deficiency.
1998	Section 8 Program Voucher and Existing	The Municipality has not established effective cash management procedures.	Finding considered closed as per condition in Single Audit Act OMB-A133 were no response was obtained from grantor in past two audits nor management presented a corrective action to eliminate this deficiency.

# MUNICIPALITY OF ISABELA

## CORRECTIVE ACTION PLAN

AUDITED PERIOD: JULY 1, 2000 - JUNE 30, 2001



By RAUL JUAN RIVERA TORRES

FINANCE DIRECTOR

MARCH 25, 2002.

MUNICIPALITY: ISABELA  
AUDIT PERIOD: JULY 1, 2000 TO JUNE 30, 2001  
DATE RECEIVED: MARCH 21, 2001  
PAGE: 1

### **FINDINGS**

#### **ACCOUNTING RECORDS AND REPORTS 2001 II-1**

#### **ACCOUNTING RECORDS AN REPORTS (BUDGET) 2001 II-2**

### **CORRECTIVE ACTION PLAN MUNICIPALITY**

Article 19.001 (f) of Law 81 of August 30, 1991 required the Commissioner of Municipal Affairs to design and approve a computerized accounting system to provide for the proper accounting for all municipalities. The Municipality of Isabela was certified for the establishment of said accounting system. The same provides for a double entry accounting method and internal controls to ascertain for double entry accounting method and internal controls to ascertain for the proper recording of all transactions. As of June 30, 2000 the system worked at approximately 75% of its capacity. The Municipality's management expected the use of the accounting system at full capacity for all accounting modules by June 30, 2003.

The Finance and Budget Director was instructed to make real and reasonable revenues and expenses estimates in future budgets, to prevent end operations with a deficit, and comply with budgetary requirements as stated by Law No. 81 of August 30, 1991 Know as "Autonomous Municipal Law". The Municipality can start conversations with OCAM respect to include a credit to amortize the current operational deficit do to its quantity.

MUNICIPALITY: ISABELA  
AUDIT PERIOD: JULY 1, 2000 TO JUNE 30, 2001  
DATE RECEIVED: MARCH 21, 2001  
PAGE: 2

### **FINDINGS**

#### **PROPERTY, PLANT AND EQUIPMENT 2001 II-3**

#### **PURCHASING, RECEIVING AND CASH DISBURSEMENT 2001 II-4**

#### **PAYROLL AND RELATED LIABILITIES 2001 II-5**

### **CORRECTIVE ACTION PLAN MUNICIPALITY**

The Finance and Budget Director was instructed to establish procedures to provide for the monthly closing of the accounting records of the Federal Programs and the reconciliation of these records with those maintained by the Finance Department. To ensure a reliable, accurate and complete fixed assets record of all owned properties.

The Finance Director was instructed to establish adequate internal controls and procedures and follow them. The documentation provided in relation to this finding was submitted to the Finance Director to clarify it as possible. Beginning July 1, 2001 we assigned responsible personnel to make an adequate file room.

The Human Resources Director was instructed to implement a checklist and follow-up procedures for the updating of the personnel files to comply with applicable laws, and regulations. The documentation provided in relation to this finding was submitted to the Director to clarify it as possible.

MUNICIPALITY: ISABELA  
AUDIT PERIOD: JULY 1, 2000 TO JUNE 30, 2001  
DATE RECEIVED: MARCH 21, 2001  
PAGE: 3

**FINDINGS**  
**CASH AREA 2001 II-6**

**PROCUREMENT, SUSPENSION AND DEBARMENT;  
DAVIS-BACON ACT 2001 III-1**

**CORRECTIVE ACTION PLAN MUNICIPALITY**

The Finance Director was instructed to evaluate internal controls related to the handling of bank accounts to strengthen the prevention of errors and irregularities.

The Finance Director was instructed to prepare the Cash Transactions Report (Form 4-A) on a monthly basis for the proper conciliation to the accounting records; to analyse any inactive fund for the proper use of such resources; and to keep records for all checks issued and all deposits made for the follow-up on all bank accounts transactions and balances.

The municipality in coordination with OCAM all the Finance Department personnel can take training in the use of computerized accounting system. The Finance Department acquire four (4) new PC's to computerize all accounting record.

The Secretarial Office of the Municipality was instructed to include in contracts all clauses required to ensure that adequate procedures and controls are established, implement and procurement procedures are carried on as specified by related laws, regulations and federal requirements.

The Federal Programs Director will assign an employee that interview in the field the contractor's employees to ensure that all procedures and controls are established, implemented and properly executed. The same employee must review that the wages paid are in accordance with federal rates tables.

MUNICIPALITY: ISABELA  
AUDIT PERIOD: JULY 1, 2000 TO JUNE 30, 2001  
DATE RECEIVED: MARCH 21, 2001  
PAGE: 4

## FINDINGS

### ALLOWABLE COST/COST PRINCIPLES 2001 III-2

### PERIOD OF AVAILABILITY OF FEDERAL FUNDS, 24 CFR 85.20 (b)(2) 2001 III-3

### CASH MANAGEMENT 2001 III-4

### PROCUREMENT, SUSPENSION AND DEBARMENT; DAVIS-BACON ACT 2001 III-5

## CORRECTIVE ACTION PLAN MUNICIPALITY

The Finance Director was instructed to establish adequate internal controls and procedures, to comply with all related laws, regulation and federal requirements. Beginning July 1, 2001 a responsible personnel was assigned to make an adequate file room.

The Finance and Federal Program Directors are instructed to establish adequate internal controls and procedures, to comply with respective laws, regulations and federal requirements. The Municipality of Isabela was certified for the establishment of a computerized accounting system. The same provides for a double entry accounting method and internal controls to ascertain for double entry accounting method and internal controls to ascertain for the proper recording of all transactions.

Responsible personnel in Federal Program Office were instructed to establish control and procedures to ascertain that the cash management procedures comply with all applicable laws, regulations and federal requirement.

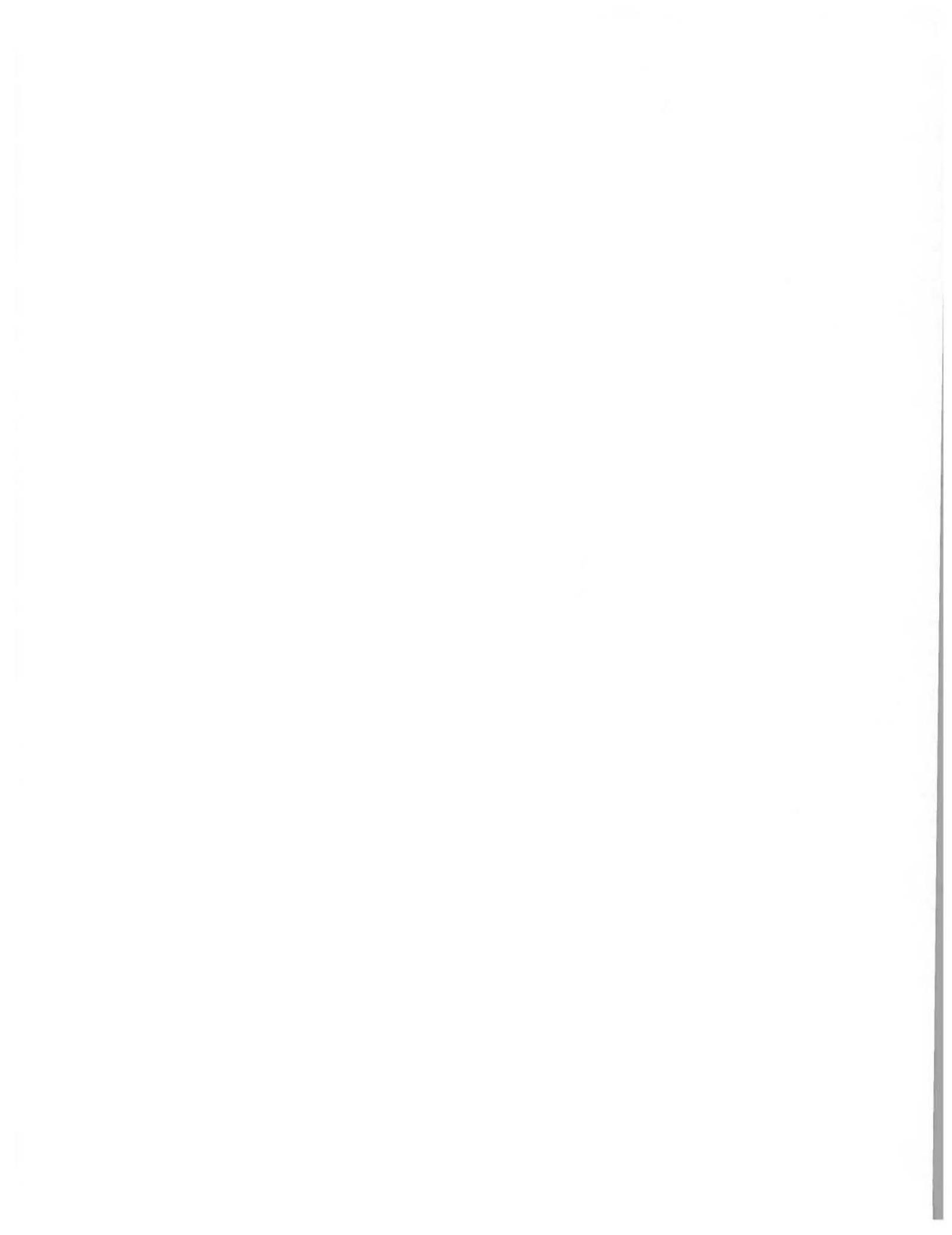
The Secretarial Office of the Municipality was instructed to include in contracts all clauses required to ensure that adequate procedures and controls are established, implement and procurement procedures are carried on as specified by related laws, regulations and federal requirements.

The Federal Programs Director will assign an employee that

MUNICIPALITY: ISABELA  
AUDIT PERIOD: JULY 1, 2000 TO JUNE 30, 2001  
DATE RECEIVED: MARCH 21, 2001  
PAGE: 5

**FINDINGS**  
**(Continue) PROCUREMENT, SUSPENSION AND**  
**DEBARMENT; DAVIS-BACON ACT 2001 III-5**

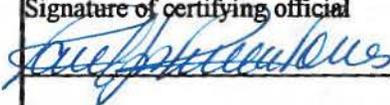
**CORRECTIVE ACTION PLAN MUNICIPALITY**  
interview in the field the contractor's employees to ensure that all procedures and controls are established, implemented and properly executed. The same employee must review that the wages paid are in accordance with federal rates tables.



**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS**

**RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132**  
**Form SF-SAC(3-20-2001) OMB #0348-0057 Report ID : 36196**

OFIC. DEL COMISIONADO  
 DE ASUNTOS MUNICIPALES  
 3/26/02  
 RECIBIDO  
 UNIDAD DE CORREO  
 3:58 PM

<b>Part I: GENERAL INFORMATION</b>	
1. Fiscal year ending date for this submission (mm/dd/yyyy) 06/30/2001	2. Type of A-133 audit <input checked="" type="radio"/> Single audit
3. Audit period covered <input checked="" type="radio"/> Annual	CENSUS USE ONLY
5. Employer Identification Number (EIN) a. Auditee EIN 660433796	4. Date received by clearinghouse
6. AUDITEE INFORMATION	b. Are multiple EINS covered in this report? <input checked="" type="radio"/> No
a. Auditee name MUNICIPALITY OF ISABELA	7. AUDITOR INFORMATION
b. Auditee address (Number and street) P.O. BOX 507	a. Auditor name RODRIGUEZ, RIVERA & TORO, LLP
City ISABELA	b. Auditor address (Number and street) P.O. BOX 1080
State Zip Code PR 00662 -	City MAYAGUEZ
c. Auditee contact Name MR. RAUL RIVERA	c. Auditor contact Name JOSE A. TORO-MERCADO, CPA, CVA
Title FINANCE DIRECTOR	d. Auditor contact telephone ( 787 ) 834 - 3100
d. Auditee contact telephone ( 787 ) 872 - 2100	e. Auditor contact FAX (Optional) ( 787 ) 831 - 2909
e. Auditee contact FAX (Optional) ( 787 ) 872 - 6300	f. Auditor contact E-mail (Optional) JTORO@RRTLLP.COM
f. Auditee contact E-mail (Optional)	
g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.	g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.
Signature of certifying official  Date 03 / 26 / 2002	
Name/Title of certifying official RAUL JUAN RIVERA TORRES, FINANCE DIRECTOR	

	<table><tr><td data-bbox="829 132 1230 195">Signature of auditor</td><td data-bbox="1230 132 1482 195">Date</td></tr><tr><td data-bbox="829 195 1230 264">Rodriguez Rivera &amp; Hono LLP</td><td data-bbox="1230 195 1482 264">3 / 26 / 02</td></tr></table>	Signature of auditor	Date	Rodriguez Rivera & Hono LLP	3 / 26 / 02
Signature of auditor	Date				
Rodriguez Rivera & Hono LLP	3 / 26 / 02				

Signature of auditor

Date

Rodriguez Rivera & Hono LLP

3 / 26 / 02

## Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 36196

<b>Part I: GENERAL INFORMATION - Continued</b>	
8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (x) one box)	
<input checked="" type="radio"/> No - SKIP to Part II, Item 1	
9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (x) one box) However, if cognizance has been reassigned, see instructions	
<b>Part II: FINANCIAL STATEMENTS (To be completed by auditor)</b>	
1. Type of audit report (Mark (x) one box)	
<input checked="" type="radio"/> Disclaimer of opinion	
2. Is a "going concern" explanatory paragraph included in the audit report?	
<input checked="" type="radio"/> No	
3. Is a reportable condition disclosed?	
<input checked="" type="radio"/> Yes	
4. Is any reportable condition reported as a material weakness?	
<input checked="" type="radio"/> Yes	
5. Is a material noncompliance disclosed?	
<input checked="" type="radio"/> Yes	
<b>Part III: FEDERAL PROGRAMS (To be completed by auditor)</b>	
1. Type of audit report on major program compliance	
<input checked="" type="checkbox"/> Unqualified opinion	
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10)	
<input checked="" type="radio"/> No	
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar.	
\$300000.00	
4. Did the auditee qualify as a low-risk auditee? (§ .530)	
<input checked="" type="radio"/> No	
5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))	
<input checked="" type="radio"/> Yes	
6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))	
<input checked="" type="radio"/> Yes	
7. Are any known questioned costs reported? (§ .510(a)(3) or (4))	
<input checked="" type="radio"/> No	
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))	
<input checked="" type="radio"/> Yes	
9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to direct funding. (Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.	
10	<input checked="" type="checkbox"/> Department of Agriculture

*In addition, one copy each of the reporting package is required for:*

- 1 .....the Federal Audit Clearinghouse archives
- 0 .....and, if not marked above, the cognizant agency (if identified in PartI, Item 9)
- 2 .....Total number of reporting packages to be submitted

**Form SF-SAC(3-20-2001) OMB #0348-0057**

**Report ID : 36196**

<b>Part III: FEDERAL PROGRAMS Continued</b>									
<b>10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR</b>							<b>11. AUDIT FINDINGS</b>		
Row	10a. CFDA Number		10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference # (s) (4)
	Federal Agency Prefix (1)	Extension (2)							
1	14	228	<input checked="" type="checkbox"/> N	COMMUNITY DEVELOPMENT BLOCK GRANT-STATES PROGRAM	\$ 1148345 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> Y	B,C,D,H,I	2001 III-1,2001 III-2, 2001 III-3, 2001 III-4
2	14	871	<input checked="" type="checkbox"/> N	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 289275 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
3	10	766	<input checked="" type="checkbox"/> N	COMMUNITY FACILITY LOANS AND GRANTS	\$ 363009 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	D,I	2001 III-5
4	10	558	<input checked="" type="checkbox"/> N	CHILD AND ADULT CARE FOOD PROGRAM	\$ 13532 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
5	93	575	<input checked="" type="checkbox"/> N	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 155929 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
6	16	710	<input checked="" type="checkbox"/> N	PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS-COPS	\$ 114901 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
7	16	592	<input checked="" type="checkbox"/> N	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 71 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
<b>Computer Generated Total Federal Awards Expended:</b>				<b>\$ 2085062</b>					
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$2085062</b>					

\*Footnotes for Part 3 - Item 10 and Item 11

- See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
- Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.
- Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weakness), questioned costs, fraud, and other items reported under § .510 (a)) reported for each Federal program.

- |   |  |                                 |
|---|--|---------------------------------|
| A. Activities allowed or unallowed        | G. Matching, level of effort, earmarking               | L. Reporting                    |
| B. Allowable costs/cost principles        | H. Period of availability of funds                     | M. Subrecipient monitoring      |
| C. Cash management                        | I. Procurement   | N. Special tests and provisions |
| D. Davis-Bacon Act                        | J. Program income                                      | O. None                         |
| E. Eligibility                            | K. Real property acquisition and relocation assistance | P. Other                        |
| F. Equipment and real property management |  |                                 |

4. N/A for None.

**Form SF-SAC(3-20-2001) OMB #0348-0057**  
**Form SF-SAC Data Collection Form for Fiscal Year Ending 2001+**  
**Report ID : 36196**

**No EINS have been entered on Page 4.**