

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

MUNICIPIO DE LAS PIEDRAS
AUDITORIA 2001-02
30 DE JUNIO DE 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2002

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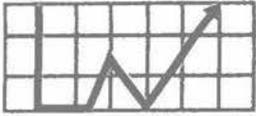
COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LAS PIEDRAS

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

We are unable to obtain audited financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", a Discrete Component Unit, and that was not included on the accompanying general-purpose financial statements. Accordingly, we do not express an opinion about the reporting entity structure.

INDEPENDENT AUDITORS' REPORT (Continued)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ- VEGA, CPA, PSC

San Juan, Puerto Rico
October 7, 2002

Stamp No. 1853998 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash and cash equivalents	\$1,228,955	\$402,717					\$1,631,672
Cash with fiscal agent		344,269	\$2,107,256	\$ 2,601,314			5,052,839
Intergovernmental receivables	243,632	23,939					267,571
Municipal license taxes receivable	9,925						9,925
Federal grants receivable		328,842					328,842
Due from other funds	126,687	141,540		1,999,149			2,267,376
Other receivables	2,030						2,030
Property and equipment					\$28,867,336		28,867,336
Amount available in Debt Service Fund						\$2,107,256	2,107,256
Amount to be provided for retirement of general long-term debt						11,165,673	11,165,673
Total assets and other debits	<u>\$1,611,229</u>	<u>\$1,241,307</u>	<u>\$2,107,256</u>	<u>\$4,600,463</u>	<u>\$28,867,336</u>	<u>\$13,272,929</u>	<u>\$51,700,520</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$184,300	\$295,194				\$583,078	\$1,062,572
Due to other funds	2,140,689	85,025		\$41,662			2,267,376
Due to other governmental entities	151,554					1,876,553	2,028,107
Deferred municipal license tax revenues	3,029,345						3,029,345
Deferred federal grant revenues		240,106					240,106
General obligation bonds						9,192,500	9,192,500
Notes Payable						450,000	450,000
Obligations under capital lease agreements						121,620	121,620
Claims and judgments						34,913	34,913
Accrued compensated absences						1,014,265	1,014,265
Total liabilities	<u>5,505,888</u>	<u>620,325</u>		<u>41,662</u>		<u>13,272,929</u>	<u>19,440,804</u>
Fund equity:							
Investment in general fixed assets					\$28,867,336		28,867,336
Fund balances:							
Reserved for encumbrances	588,814						588,814
Reserved for debt service			\$2,107,256				2,107,256
Unreserved:							
Designated for specific fund purposes		620,982		4,558,801			5,179,783
Undesignated (deficit)	(4,483,473)						(4,483,473)
Total fund equity (deficit)	<u>(3,894,659)</u>	<u>620,982</u>	<u>2,107,256</u>	<u>4,558,801</u>	<u>28,867,336</u>		<u>32,259,716</u>
Total liabilities and fund equity	<u>\$1,611,229</u>	<u>\$1,241,307</u>	<u>\$2,107,256</u>	<u>\$4,600,463</u>	<u>\$28,867,336</u>	<u>\$13,272,929</u>	<u>\$51,700,520</u>

See accompanying notes to general purpose financial statements.

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

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$3,753,283		\$1,133,408		\$4,886,691
Municipal license taxes	3,936,977				3,936,977
Licenses and permits	861,555				861,555
Intergovernmental	3,034,203	\$368,992		\$453,137	3,856,332
Rent of property	44,659				44,659
Fines and penalties	1,565				1,565
Interest	175,059				175,059
Federal grants		1,267,210			1,267,210
Miscellaneous	148,143	18,507			166,650
Total revenues	11,955,444	1,654,709	1,133,408	453,137	15,196,698
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,082,877				1,082,877
General government	3,513,568	204,904			3,718,472
Public safety	669,236	76,791			746,027
Public works	2,122,314	3,921			2,126,235
Public health and sanitation	1,750,059	44,708			1,794,767
Welfare	251,316	652,287			903,603
Economic development	47,837	216,269			264,106
Recreation	629,647	48,027			677,674
Human services	226,559				226,559
Debt service:					
Principal retirement			630,800		630,800
Interest			565,703		565,703
Capital outlays	120,925	458,564		2,837,296	3,416,785
Total expenditures	10,414,338	1,705,471	1,196,503	2,837,296	16,153,608
Excess (deficiency) of revenues over (under) expenditures	1,541,106	(50,762)	(63,095)	(2,384,159)	(956,910)
OTHER FINANCING SOURCES (USES):					
Operating transfers to other funds	(367,060)				(367,060)
Operating transfers from other funds			49,293	317,767	367,060
Proceeds from bond issuance		325,000		490,000	815,000
Total other financing sources (uses)	(367,060)	325,000	49,293	807,767	815,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	1,174,046	274,238	(13,802)	(1,576,392)	(141,910)
Fund balances (deficit), beginning as restated	(5,068,705)	346,744	2,121,058	6,135,193	3,534,290
Fund balances (deficit) , ending	(\$3,894,659)	\$620,982	\$2,107,256	\$4,558,801	\$3,392,380

See accompanying notes to general purpose financial statements.

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

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$3,871,652	\$3,910,205	\$38,553	\$1,107,086	\$1,133,408	\$26,322
Municipal license taxes	3,976,550	3,979,559	3,009			
Licenses and permits	944,100	958,111	14,011			
Intergovernmental	3,217,153	3,077,460	(139,693)			
Rent of property	40,600	44,659	4,059			
Fines and penalties	4,100	1,565	(2,535)			
Interest	170,000	175,059	5,059			
Miscellaneous	100,500	148,142	47,642			
Total revenues	<u>12,324,655</u>	<u>12,294,760</u>	<u>(29,895)</u>	<u>1,107,086</u>	<u>1,133,408</u>	<u>26,322</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,212,731	1,193,421	19,310			
General government	4,182,398	3,530,445	651,953			
Public safety	726,519	678,442	48,077			
Public works	1,981,974	2,014,022	(32,048)			
Public health and sanitation	2,287,085	2,262,861	24,224			
Welfare	268,172	255,867	12,305			
Economic development	50,714	47,837	2,877			
Recreation	682,000	662,838	19,162			
Human services	275,253	248,641	26,612			
Capital outlays	129,595	126,891	2,704			
Debt service:						
Principal retirement				592,629	630,800	(38,171)
Interest				563,750	565,703	(1,953)
Total expenditures and encumbrances	<u>11,796,441</u>	<u>11,021,265</u>	<u>775,176</u>	<u>1,156,379</u>	<u>1,196,503</u>	<u>(40,124)</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	<u>528,214</u>	<u>1,273,495</u>	<u>745,281</u>	<u>(49,293.00)</u>	<u>(63,095)</u>	<u>(13,802)</u>
OTHER FINANCING SOURCES (USES):						
Operating transfer from (to) other fund	<u>(528,214)</u>	<u>(367,060)</u>	<u>161,154</u>	<u>49,293</u>	<u>49,293</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses	<u>-</u>	<u>906,435</u>	<u>906,435</u>	<u>-</u>	<u>(13,802)</u>	<u>(13,802)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Net change in encumbrances		23,851				
GAAP adjustments to revenue		(339,317)				
GAAP adjustments to expenditures		583,077				
Fund balances(deficit), beginning, as restated		<u>(5,068,705)</u>		<u>2,121,058</u>		
Fund balances(deficit) , ending		<u><u>(\$3,894,659)</u></u>		<u><u>\$2,107,256</u></u>		

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Las Piedras** (the Municipality) was established in 1801. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and fourteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

A. Financial reporting entity:

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

The "Corporación de Desarrollo y Fomento Económico Las Piedras, C.D.", a non-profit organization and component unit, is part of the Municipality's reporting entity because of the significance of their operational or financial relationship with the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

A. Financial reporting entity (continued):

The Mayor has the authority to appoint two directors, which do not have decision-making authority, for the Board of Directors of the component unit. The component unit operates with the primary purpose of promoting and assisting for the economic and housing development in the area located within the primary government. The financial statements of the "Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.", were not available to be included as part of the general-purpose financial statements.

A complete set of the financial statements of the component unit maybe is obtain from their administrative office located in 165 José C. Barbosa Street, P.O. Box 790, Las Piedras, Puerto Rico 00771.

B. Basis of presentation:

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

Governmental fund types:

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

B. Basis of presentation (continued):

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

Account groups:

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

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

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

C. Basis of accounting:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

C. Basis of accounting (continued):

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

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

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

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.

The budget document is available for public inspection prior to its approval by the Municipal Assembly.

- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

E. Budgetary data (continued):

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

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

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

F. Inventories:

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

G. Property and equipment:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

H. Cash and cash equivalents:

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

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

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

J. Compensated absences:

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

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

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

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

K. Insurance:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

L. Total columns (memorandum only):

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

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

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

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Retirement System Administration	\$ 71,523
Puerto Rico Aqueduct and Sewer Authority	19,751
General Services Administration	40,769
Department of Labor	12,049
Department of Treasury	7,462
	<hr/>
Total	\$ 151,554

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2002. The following is the balance of these accounts:

Department of Labor	\$ 170,292
Department of Treasury	106,679
Municipal Revenue Collection Center	<u>1,599,582</u>
Total	<u>\$ 1,876,553</u>

3. PROPERTY TAXES:

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

Tax rates are 8.53% for real property and 6.53% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.75% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

3. PROPERTY TAXES (CONTINUED):

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were in excess of actual advances by \$85,925 according to CRIM final liquidation. Such amount was included as intergovernmental receivable in the General Fund at June 30, 2002.

4. MUNICIPAL LICENSE TAXES:

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

The tax rates are as follows:

Financial institutions	1.50%
Organizations within municipal area	0.30%
Other organizations	0.50%

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

5. INTERGOVERNMENTAL:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

5. INTERGOVERNMENTAL (CONTINUED):

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

6. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 631,672
Certificates of deposit (90 days or less)	<u>1,000,000</u>
 Total cash and cash equivalents	 <u>\$ 1,631,672</u>

7. DEBT SERVICE FUND:

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

8. GENERAL FIXED ASSETS:

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

Description	Balance July 1, 2001	Additions and adjustments	Retirements and adjustments	Balance June 30, 2002
Land	\$ 2,386,898	\$ 306,400	\$ -	\$ 2,693,298
Buildings and Improvements	20,068,240	474,009	4,821,236	15,721,013
Other Improvements (Bridges)	2,379,580	89,805	61,430	2,407,955
Furniture and Equipment (and Vehicles)	6,693,155	407,106	299,552	6,800,710
Construction in Progress	<u> </u>	<u>1,244,361</u>	<u> </u>	<u>1,244,360</u>
 Total	 <u>\$ 31,527,873</u>	 <u>\$ 2,521,681</u>	 <u>\$ 5,182,218</u>	 <u>\$ 28,867,336</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2001	\$ 9,278,300
Debt issued	490,000
Principal retirements	<u>(575,800)</u>
Balance at June 30, 2002	<u>\$ 9,192,500</u>

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1987 Series	7-1-02	\$ 515,000	8.20 – 9.50%	\$ 50,000
1989 Series	10/1/08	216,000	8.00%	67,500
1991 Series	7-1-06	785,000	3.26 – 6.36%	380,000
1992 Series	7-1-02	975,000	4.16 – 6.06%	155,000
1993 Series	7-1-08	1,045,000	6.10 – 7.60%	660,000
1995 Series	7-1-14	5,025,000	4.70 – 8.00%	4,170,000
1996 Series	1-1-13	400,000	5.00 – 8.00%	330,000
1998 Series	7-1-23	3,040,000	0.00 – 7.81%	2,890,000
2001 Series	7-1-25	490,000	5.00 – 6.75%	490,000
Total general obligation bonds				<u>\$ 9,192,500</u>

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

Year ended June 30	Total
2003	\$ 630,800
2004	455,800
2005	480,800
2006	525,800
2007	565,800
hereafter	<u>6,533,500</u>
Total	<u>\$ 9,192,500</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. NOTES PAYABLE AND LEASE OBLIGATIONS PAYABLE:

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

Balance at July 1, 2001	\$ 180,000
Debt issued	325,000
Payments during the current year	<u>(55,000)</u>
Balance at June 30, 2002	<u>\$ 450,000</u>

Notes payable at June 30, 2002 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1994 Series	7-1-04	\$ 275,000	0.00% - 8.00%	\$ 125,000
2001 Series	7-1-08	325,000	5.00% - 6.75%	<u>325,000</u>
Total notes payable				<u>\$ 450,000</u>

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

Year ended June 30	Total
2003	\$ 100,000
2004	105,000
2005	45,000
2006	45,000
2007	50,000
Thereafter	<u>105,000</u>
Total	<u>\$ 450,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. NOTES PAYABLE AND LEASE OBLIGATIONS PAYABLE (CONTINUED):

The Municipality is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the General Fixed Assets Account Group and the General Long Term Debt Account Group, respectively. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2002.

Year ended June 30	Total
2003	\$ 68,095
2004	68,095
Minimum lease payments for all capital leases	\$ 136,190
Less: Amount representing interest at the Municipality's incremental borrowing rate interest	14,570
Present value of minimum lease payments	\$ 121,620

10. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. RETIREMENT PLAN (CONTINUED):

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. RETIREMENT PLAN (CONTINUED):

Defined Contribution Plan

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

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

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002 recorded as pension expenditures were approximately \$ 362,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

11. RETIREMENT PLAN (CONTINUED):

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

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

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

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

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 34,913 in the general long-term debt account group for final unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of determined as liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General, Special Revenue and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

Description	General	Special Revenue	Debt Service
Beginning Fund Balances (Deficit) at July 1, 2001	\$ (4,832,724)	\$ 52,627	\$ 1,482,120
Adjustment of General Fund interfund payable to Special Revenue Fund	(150,000)	150,000	
Adjustment of General Fund interfund receivable from Special Revenue Fund	(99,409)	99,409	
Reclassification of Special Revenue Fund from General Fund	(44,708)	44,708	
Elimination of A/P to Department of Treasury	28,136		
Adjustment of General Fund interfund receivable from Special Revenue Fund	30,000		
Adjustment of Debt Service Fund fund balance related with CAE account final liquidations of prior fiscal years			638,938
Beginning Fund Balances (Deficit) at July 1, 2001, as restated	<u>\$ (5,068,705)</u>	<u>\$ 346,744</u>	<u>\$ 2,121,058</u>

15. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On November 11, 2002 the Municipality of Las Piedras issued a general obligation bond in the amount of \$765,000. The interest rate of this debt is 6.50%. Repayment of the bond is scheduled for January 2003 through July 2027. This bond was issued to pay some long-term debts to suppliers and to Governmental Entities, registered by the Municipality on the General Long-Term Debt at June 30, 2002 and other accounts payable incurred during the fiscal year 2002-2003.

On November 20, 2002 the Municipality of Las Piedras issued a general obligation bond in the amount of \$810,000. The interest rate of this debt is 6.50%. Repayment of the bond is scheduled for January 2003 through July 2027.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

15. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS (CONTINUED):

On November 20, 2002 the Municipality of Las Piedras issued a general obligation bond in the amount of \$150,000. The interest rate of this debt is 6.50%. Repayment of the bond is scheduled for January 2003 through July 2008.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Nutrition Program for the Elderly	10.570		\$ 26,530
Total U.S. Department of Agriculture			26,530
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		460,850
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants - State's Program	14.228	01-FD-55 00-FD-55 99-FD-55 98-FD-55 97-FD-55 96-FD-55 95-FD-55	567,622
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	16,239
Total U.S. Department of Housing and Urban Development			1,044,711

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF JUSTICE:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office):			
Title V - Delinquency Prevention Program	16.548	00-JP-FX-0072	19,339
Pass-through the Commonwealth of Puerto Rico - Local Department of Justice:			
Local Law Enforcement Block Grants Program	16.592	Not Available	<u>50,499</u>
Total U.S. Department of Justice			<u>69,838</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	1247-DR-PR-121	529
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management Performance Grant	83.552	Not Available	<u>6,953</u>
Total U.S. Federal Emergency Management Agency			<u>7,482</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Elderly Office):			
Special Program for Aging - Title III, Part B - Grant for Supporting Services and Senior Centers	93.044	Not Available	86,972
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
Community Service Block Grant	93.569	Not Available	13,000
Child Care and Development Block Grant	93.575	Not Available	<u>18,677</u>
Total U.S. Department of Health and Human Services			<u>118,649</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,267,210</u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

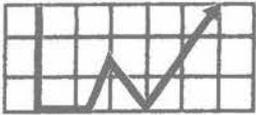
1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 1,267,210
Non federal programs expenditures	<u>438,261</u>
Total expenditures in the general purpose financial Statements	<u>\$ 1,705,471</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the general purpose financial statements of the **Municipality of Las Piedras** as of and for the year ended June 30, 2002, and have issued our report thereon dated October 7, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, the Municipality's did not provide to us the audited financial statements of the "Corporación de Desarrollo y Fomento de Las Piedras, C.D.", a discrete component unit; therefore, such discrete component unit was not included on the accompanying general-purpose financial statements as required by Governmental Accounting Standard Board Statement 14. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items **02-01** and **02-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Las Piedras** in a separate letter dated October 7, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 7, 2002

Stamp No. 1853999 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

Compliance

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

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

In our opinion, the **Municipality of Las Piedras** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-04** through **02-09**.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Las Piedras's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **02-04** through **02-09**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **02-04** through **02-06**, **02-08** and **02-09** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Las Piedras** in a separate letter dated March 7, 2003.



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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2003

Stamp No. 1854000 of the Puerto Rico
Society of Certified Public Accountants
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal awards

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

Identification of major programs:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference **02-01**

Requirement **Fixed\ Capital Assets and Expenditures – Subsidiary Ledger**

Statement of Condition During our examination of the Municipality's property records and reports we noted the following deficiencies: the balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger; and Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger.

Criteria Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets.

Cause of Condition There is no internal control procedures implemented to assure the completeness of the property records and reports.

Effect of Condition The Municipality is not in compliance with Chapter IX, Article 9.002 of the State Act Number 81 and with the federal regulations.

Recommendation We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.

Questioned Costs None

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	The Municipality did not include in your general-purpose financial statements, audited financial information related to the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.”, a Discrete Component Unit.
Criteria	<i>GASB Statement No. 14</i> requires that the financial information of component units not be blended with similar financial information of the primary government. Rather, such information should be presented in a discrete column in the combined financial statements of the financial reporting entity.
Cause of Condition	The Municipality was unable to obtain audited financial statements of the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.”, a Discrete Component Unit.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 14</i> requirements.
Recommendation	We recommend to the Municipality Management to require annual audited financial statements of the “Corporación de Desarrollo y Fomento Económico de Las Piedras, C.D.” to the Component Unit management, to include them in the financial reporting entity general-purpose financial statements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-03
Requirement	Financial Reporting - Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
Criteria	Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-04
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Activities Allowed or Unallowed- Allowable Cost
Statement of Condition	<p>During our examination of files maintained by the Municipality relating to assistance for housing rehabilitation we noted that there was no complete evidence to support that the rehabilitation assistance was made to an eligible participants and allowable activities. In our examination of twenty-five (25) files we noted the following situations:</p> <ul style="list-style-type: none">a. On the twenty five (25) cases we noted that the rehabilitation contract did not contain the participants housing unit deficiencies to be corrected. The contract made reference to the Purchase Order.b. On two (2) cases we noted that the file did not include adequate and complete evidence of the family composition.c. On the twenty five (25) cases we noted that the eligibility or non-eligibility were not properly documented according with the approved CDBG-State's Program Annual Proposal.d. On twenty four (24) cases we noted that the file did not include copy of the letter of eligibility notification.e. On twenty (20) cases we noted that the file did not contain the forms related to the inspections of the rehabilitation work during the contract term and upon completion of renovation to assure that the assistance were used in accordance with contract specifications.f. On three (3) cases we noted that the file did not contain the forms related to the inspections of the rehabilitation work upon completion of the renovation to assure that the assistance was used in accordance with contract specifications.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-04 (Continued)**

g. On nineteen (19) cases we noted that the contribution was for a house under construction (new constructions) or for other improvements and not for and existing housing rehabilitation as required in the approved CDBG-State Program's Annual Proposal.

Criteria Code of Federal Regulations 24, Subpart C, Part 570.506, states that each recipient shall establish and maintain sufficient records to enable the Secretary to determine whether the recipient has met the requirements of this part. The OMB Circular A-87 states that to be allowable under Federal awards, cost must be properly documented. Also, the Grant Agreement between the Office of Commissioner of Municipal Affairs and the Municipality establishes that the proposal approved by (OCAM) is part of the contract between the two agencies. The proposal states the documents and procedures required to support the assistance and also, state the type of improvements allowable under that proposal.

Cause of Condition The Municipality did not maintain appropriate monitoring procedures to assure that the housing rehabilitations assistance was used only for applicable participants and only for allowable activities. Also, the Municipality did not maintain appropriate monitoring procedures to assure that the assistance file contains all the required documentation.

Effect of Condition Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Part 570.506; the OMB Circular A-87 and with the proposal approved by the Commissioner of Municipals Affair.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-04 (Continued)

Recommendation We recommend that the Municipality should implement the procedures designed by the federal and local agencies in order to assure that all assistance files contain all documents required by federal and local agencies and to assure that the housing rehabilitations assistance was used only for applicable participants and only for housing rehabilitation activities.

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-05
Program	Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	<p>We realized Cash Management Test and after our procedures were performed we found the following exceptions:</p> <ul style="list-style-type: none">a. During the audit of Community Development Block Grant- State’s Program we could not trace the funds received from the Federal Agency with the disbursements of checks.b. The Municipality requested funds that were not disbursed on a reasonable lapse of time.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7) states that units of general local governments shall use procedures to minimize the time elapsed between the transfer of funds by the state and disbursements for CDBG activities, according with Treasury Circular 1075. Units of general local government shall also use procedures to minimize the time elapsed between the transfer of funds by the state and disbursement of CDBG activities.</p>
Cause of Condition	<p>The Federal Program Department does not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs. Also, the Federal Program Department does not maintain adequate cash management and financial procedure in order to permit a clear trace of the cash requisitions with the cash disbursements related with that requisitions.</p>
Effect of Condition	<p>The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations 24, Subpart I, Section 85.20 (b) (7).</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

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

Recommendation We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality. Also, we recommend that management should strength its accounting procedures in order to assure a clear trace of transactions to the accounting records.

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-07
Program	Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs
Requirement	Procurement and Suspension and Debarment
Statement of Condition	<p>During our contract provision test we noted the following situations:</p> <ul style="list-style-type: none">a. One (1) contract did not include a provision for compliance with Executive Order 11246 "Equal Employment Opportunity".b. One (1) contract did not include a provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.c. Two (2) contracts did not include provisions for granting access to GAO or other federally agency, to books and other documents.d. One (1) contract did not include a provision for compliance with the Clean Air Act and Water Act.e. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act.f. One (1) contract did not include a provision for compliance with the Copeland "Anti-Kickback" Act.g. Two (2) contracts did not include a provision for retention of all required records for three years.
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality did not perform proper monitoring procedures to detect the exclusion of certain contract clauses in the procurement process.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-07 (Continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).
Recommendation	We recommend management to update contract model according with the federal requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-08

N/A

Program Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development

Requirement Eligibility of individuals

Statement of Condition We performed an eligibility test and examined a sample of twenty five (25) participant's files. The following summarize the situations found:

- a. In four (4) participant files we noted that during the fiscal year 2001-2002 the Municipality did not obtain a release form to allow the PHA to obtain information from third parties, signed by the head of household spouse or by any members of the family composition who is at least eighteen (18) years of age.
- b. In eleven (11) participant files we noted that during the fiscal year 2001-2002 there was no evidence that the PHA provide to the assistance applicants and to the participants in the annual income recertification a "Privacy Act Notice".
- c. We noted that during the fiscal year the Municipality obtained supporting documents from the participants, nevertheless, the Municipality did not have a proper method to verify that evidence from third parties.

Criteria Code of Federal Regulations 24, Sections 5.230, and 982.516 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.

Code of Federal Regulations 24, Subpart B, Section 5.212 (b) states that all assistance applicants shall be provided with a Privacy Act notice at the time of application. Also, all participants shall be provided with a Privacy Act notice at each annual income recertification.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-08 (Continued)
Cause of Condition	The Federal Program Department does not maintain adequate monitoring system to assure that the participant files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230 and 982.516.
Recommendation	We recommend the Program to establish monitoring procedures to assure that the participant's files include all documentation required by federal agencies.
Questioned Costs	None.
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

N/A

Finding Reference	02-09
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and Housing Quality Standards Enforcement
Statement of Condition	<p>During our examination of twenty five (25) participant files we noted the following situations:</p> <ul style="list-style-type: none">a. In our examination of twenty five (25) participant files there was no evidence of a quality control re-inspections performed and documented by a responsible official. Through inquiry we obtained information that showed us that during the fiscal year 2001-2002 the Municipality did not have any official responsible to re-inspect and document the quality control re-inspection.b. On four (4) participant files the evidence shows that the Municipality followed up the deficiencies noted on the Housing Quality Control Standards Inspection after the expiration of the thirty (30) days correction period. There was no evidence on the participant files that shows that the Municipality extended the time frame to correct the deficiencies noted on the inspection.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also, the PHA must prepare a unit inspection report.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

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

Criteria (continued) Code of Federal Regulations 24, Sections 982.158 (d) and 982.404 establishes that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, for family-cause defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations.

Cause of Condition Management does not maintain adequate monitoring procedures to assure that quality control re-inspections were properly performed and documented in participant's files and to assure that adequate follow up was realized by the management to assure that the exceptions detailed in the inspection report are corrected in the required period as required in the Housing Quality Standards Enforcement.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) and 982.404.

Recommendation We recommend management to improve monitoring procedures to assure that quality control re-inspections are properly documented in the participant files and to assure that the exceptions detailed in the inspection reports are duly corrected by the owner or the participant in the required period.

Questioned Costs None.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-05	14.228	<p><u>Failures related to housing rehabilitation participant files</u></p> <p>No corrective action has been taken. The Municipality will follow procedures and will use forms included in the manual for housing rehabilitation activities issued by the Federal Department and approved by the Office of Commissioner of Municipal Affairs (OCAM).</p>
01-06	14.228 14.855 14.857	<p><u>Cash in excess of immediate needs</u></p> <p>Partial corrective action has been taken. Related with the Section 8 program the Municipality improved its cash management procedures. Related with the CDBG program the Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program funds. Also, the Municipality will strength its accounting procedures in order to permit a clear trace between the federal funds received and the disbursement of those funds.</p>
01-07	14.228	<p><u>Inadequate Property Records and Reports</u></p> <p>No corrective action has been taken. The Municipality is evaluating the impact of Governmental Accounting Standard Board Statement No. 34 for the fiscal year 2002-03 financial statements. Such Statement require significant changes in the financial reporting, and therefore will require a significant planning and resources commitment for the Municipality, including, but not limited to major changes in the accounting system: modification of chart of accounts, if necessary; development of worksheets to prepare fund financial statements; development of worksheets to prepare governmental-wide financial statements; actualization of fixed\capital assets subsidiary ledger in order to include in it all necessary information to comply with the GASB 34 requirements; others.</p>
01-08	14.228	<p><u>Failures related with contract provisions and clauses</u></p> <p>No corrective action has been taken. The contracts will be updated to include all clauses required by Federal statutes, executive orders and</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		implementing regulations.
01-09	14.855 14.857	<u>Failures in the participants files related with the supporting evidence and with HUD-approved release and consent forms submitted by the family</u> No corrective action has been taken. The Municipality obtained HUD – Information Package that includes the forms and releases required by the federal regulation. The Municipality will provide to the families with the required orientation and a complete Information Package during the annual re-examination or new admission during the fiscal year 2002-2003. Also, the Municipality will be in the process of development a procedure to very income and value of assets from third parties through solicitation of the credit profile of the participants.
01-10	14.855 14.857	<u>Failures in the Housing Assistance Payment Calculations</u> Full corrective action plan has been taken.
01-11	14.855 14.857	<u>Failures with the documentation of the Housing Quality Control Inspections and with the performance of Quality Control Re-inspections</u> No corrective action has been taken. The Municipality will assign a municipal employee as a full time housing inspector during the fiscal year 2002-2003.
01-12	14.855 14.857	<u>Failures in the supporting documents related with the Municipality follow up procedures of the deficiencies noted as part of the Housing Quality Control Inspections</u> No corrective action has been taken. The Municipality will assign a municipal employee as a full time housing inspector during the fiscal year 2002-2003.
00-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p>No corrective action has been taken. The Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program Funds. Also, the Municipality will strength its accounting procedures in order to permit a clear trace between the federal funds received and the disbursement of those funds.</p>
00-III-02	14.855	<p><u>Participant files do not have evidence of HUD-approved release and consent forms submitted by the family.</u></p> <p>No corrective action has been taken. The Municipality obtained HUD – Information Package that includes the forms and releases required by the federal regulation. The Municipality will provide to the families with the required orientation and a complete Information Package during the annual re-examination or new admission during the fiscal year 2002-2003. Also, the Municipality will be in the process of development a procedure to very income and value of assets from third parties through solicitation of the credit profile of the participants.</p>
00-III-03	14.228	<p><u>Federal Program Department does not have a property register.</u></p> <p>No corrective action has been taken. The Municipality is evaluating the impact of Governmental Accounting Standard Board Statement No. 34 for the fiscal year 2002-03 financial statements. Such Statement require significant changes in the financial reporting, and therefore will require a significant planning and resources commitment for the Municipality, including, but not limited to major changes in the accounting system: modification of chart of accounts, if necessary; development of worksheets to prepare fund financial statements; development of worksheets to prepare governmental-wide financial statements; actualization of fixed\capital assets subsidiary ledger in order to include in it all necessary information to comply with the GASB 34 requirements; others.</p>
00-III-04	14.228	<p><u>Construction contracts over 10,000 did not contain the clauses detailed for compliance with the Clean Air Act & Clean Water Act and the Energy Policy and Conservation Act.</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action has been taken. The contracts will be updated to include all clauses required by Federal statutes, executive orders and implementing regulations.
00-III-05	14.855	<u>A unit with the correction period ended does not have a unit inspection report or evidence of other verification documenting that the PHA-required repairs were completed.</u>
		No corrective action has been taken. The Municipality will assign a municipal employee as a full time housing inspector during the fiscal year 2002-2003.
00-III-06	14.855 14.857	<u>Participant's files do not have a unit inspection report.</u>
		No corrective action has been taken. The Municipality will assign a municipal employee as a full time housing inspector during the fiscal year 2002-2003.
99-III-01	14.228	<u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u>
		No corrective action has been taken. The Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program Funds. Also, the Municipality will strength its accounting procedures in order to permit a clear trace between the federal funds received and the disbursement of those funds.
99-III-03	14.228	<u>Federal Program Department does not have a property register.</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LAS PIEDRAS**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p>No corrective action has been taken. The Municipality is evaluating the impact of Governmental Accounting Standard Board Statement No. 34 for the fiscal year 2002-03 financial statements. Such Statement require significant changes in the financial reporting, and therefore will require a significant planning and resources commitment for the Municipality, including, but not limited to major changes in the accounting system: modification of chart of accounts, if necessary; development of worksheets to prepare fund financial statements; development of worksheets to prepare governmental-wide financial statements; actualization of fixed\capital assets subsidiary ledger in order to include in it all necessary information to comply with the GASB 34 requirements; others.</p>
98-III-01	14.228	<p><u>Federal financial assistance is sometimes requested and not used to cover immediate expenditures incurred.</u></p> <p>No corrective action has been taken. The Municipality will reinforce its disbursement internal control procedures in order to reduce the time elapsed between receipt and use of CDBG Program Funds. Also, the Municipality will strength its accounting procedures in order to permit a clear trace between the federal funds received and the disbursement of those funds.</p>
98-III-02	14.228	<p><u>Federal Program Department does not have a property register.</u></p> <p>No corrective action has been taken. The Municipality is evaluating the impact of Governmental Accounting Standard Board Statement No. 34 for the fiscal year 2002-03 financial statements. Such Statement require significant changes in the financial reporting, and therefore will require a significant planning and resources commitment for the Municipality, including, but not limited to major changes in the accounting system: modification of chart of accounts, if necessary; development of worksheets to prepare fund financial statements; development of worksheets to prepare governmental-wide financial statements; actualization of fixed\capital assets subsidiary ledger in order to include in it all necessary information to comply with the GASB 34 requirements; others.</p>

INTERNET REPORT ID: 67325

3/31/03

OMB No. 0348-0057

FORM SF-SAC
 Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
 for Fiscal Year Ending Date: On or After January 1, 2001

Complete this form, as required by OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. **RETURN TO** Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132.

PART I GENERAL INFORMATION (to be completed by auditee, except for item 7)

1. Fiscal period ending date for this submission: Month **06** / Day **30** / Year **2002**. Fiscal Period End Dates Vint B: On or After January 1, 2001.

2. Type of Circular A-133 audit: Single audit Program-specific audit.

3. Audit period covered: Annual Other Biennial. Date received by Federal Clearinghouse.

4. Employer identification number (EIN): **660434054**. Yes No. *If Part I item 5b is Yes, complete Part I item 5c (Complete the continuation sheet on Page 4)*

6. AUDITEE INFORMATION

a. Auditee name: **MUNICIPALITY OF LAS PIEDRAS**

b. Auditee address (Number and street): **APARTADO 68**
City: **LAS PIEDRAS**
State: **PR** ZIP + 4 Code: **00771-**

c. Auditee contact Name: **NOELIA VEGA**
Title: **FINANCE DIRECTOR**

d. Auditee contact telephone: **(787) 733-2160**

e. Auditee contact FAX (Optional): **(787) 733-0165**

f. Auditee contact E-mail (Optional):

7. AUDITOR INFORMATION (to be completed by auditor)

a. Auditor name: **OPEZ VEGA, CPA, PSC**

b. Auditor address (Number and street): **ARANA # 1686, EL CEREZAL**
City: **AN JUAN**
State: **PR** ZIP + 4 Code: **00926-3144**

c. Auditor contact Name: **ANGEL ALEREDO LOPEZ VEGA**
Title: **PRESIDENT**

d. Auditor contact telephone: **(787) 777-8044**

e. Auditor contact FAX (Optional): **(787) 777-8045**

f. Auditor contact E-mail (Optional): **MCG@ISLA.NET**

AUDITEE CERTIFICATION STATEMENT - I, the undersigned, certify that to the best of my knowledge and belief the auditee has 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 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 that the information included in Part I and II of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official: *[Signature]* Date: **3/31/03**

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 Part I and II of this form, except for Part I items 9 and 10, was transferred from the auditor's reports for the period described in Part I items 1 and 2 and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report. A copy of the reporting package required by OMB Circular A-133, which includes the complete audit report, is available in its entirety from the auditee at the address provided in Part I of this form. I, the auditor, certify that the information in Part I and II 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 auditor: *[Signature]*