

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE PEÑUELAS**

**AUDITORIA 2000-01**

**30 DE JUNIO DE 2001**

OFIC. DEL COMISIONADO  
DE ASUNTOS MUNICIPALES  
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UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF PEÑUELAS**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2001**

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF PEÑUELAS**

**YEAR ENDED JUNE 30, 2001**

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF PEÑUELAS**

**YEAR ENDED JUNE 30, 2001**

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

## INDEPENDENT AUDITORS' REPORT

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

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

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

The **Municipality of Peñuelas** 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 were unable to obtain sufficient competent evidential matter related to obligations under capital lease agreements presented in the general long-term debt account group. Therefore, we do not express an opinion on such amounts included in the general long-term debt account group.

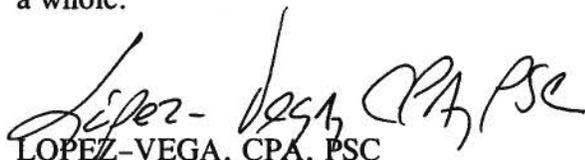
Also, were unable to obtain sufficient competent evidential matter from the Municipal Revenue Collection Center or the Government Development Bank of Puerto Rico with respect to a \$430,331 included as intergovernmental receivable in the General Fund. Therefore, we do not express an opinion on such amount included in the general purpose financial statements.

INDEPENDENT AUDITORS' REPORT- (CONTINUED)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, have obtained sufficient competent evidence the obligations under capital lease agreements, and the transactions disclosed in the preceding paragraph related the General Fund intergovernmental receivable, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Peñuelas** as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 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 Peñuelas**, 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  
February 8, 2002

Stamp No. 1785239 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



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

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents	\$43,594	\$967,076		\$275,173			\$1,285,843
Cash with fiscal agent	149,124	7,418	\$1,236,050	1,452,261			2,844,853
Intergovernmental receivables	655,000						655,000
Municipal license taxes receivable	706						706
Federal grants receivable		90,154					90,154
Due from other funds	278,482			200,107			478,589
Property and equipment					\$15,473,223		15,473,223
Amount available in Debt Service Fund						\$1,236,050	1,236,050
Amount to be provided for retirement of general long-term debt						15,918,061	15,918,061
<b>Total assets and other debits</b>	<b>\$1,126,906</b>	<b>\$1,064,648</b>	<b>\$1,236,050</b>	<b>\$1,927,541</b>	<b>\$15,473,223</b>	<b>\$17,154,111</b>	<b>\$37,982,479</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$260,581						\$260,581
Due to other funds	197,310	\$281,279					478,589
Due to other governmental entities	82,402					\$6,790,196	6,872,598
Deferred municipal license tax revenues	1,687,617						1,687,617
Deferred federal grant revenues		704,576					704,576
General obligation bonds						7,146,000	7,146,000
Notes payable						180,000	180,000
Obligations under capital lease agreements						1,715,595	1,715,595
Accrued compensated absences						1,322,320	1,322,320
<b>Total liabilities</b>	<b>2,227,910</b>	<b>985,855</b>				<b>17,154,111</b>	<b>20,367,876</b>
<b>Fund equity:</b>							
Investment in general fixed assets					\$15,473,223		15,473,223
<b>Fund balances:</b>							
Reserved for encumbrances	272,603						272,603
Reserved for debt service			1,236,050				1,236,050
<b>Unreserved:</b>							
Designated for specific fund purposes		78,793		1,927,541			2,006,334
Undesignated (Deficit)	(1,373,607)						(1,373,607)
<b>Total fund equity</b>	<b>(1,101,004)</b>	<b>78,793</b>	<b>1,236,050</b>	<b>1,927,541</b>	<b>15,473,223</b>		<b>17,614,603</b>
<b>Total liabilities and fund equity</b>	<b>\$1,126,906</b>	<b>\$1,064,648</b>	<b>\$1,236,050</b>	<b>\$1,927,541</b>	<b>\$15,473,223</b>	<b>\$17,154,111</b>	<b>\$37,982,479</b>

See accompanying notes to general purpose financial statements.

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

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$2,856,043		\$600,352		\$3,456,395
Municipal license taxes	1,012,263				1,012,263
Licenses and permits	137,822				137,822
Intergovernmental	2,564,592	\$620,278		\$80,918	3,265,788
Rent of property	4,169				4,169
Fines and penalties	2,270				2,270
Interest	238,837				238,837
Federal grants		4,509,428			4,509,428
Miscellaneous	673,477	38,928		517	712,922
<b>Total revenues</b>	<u>7,489,473</u>	<u>5,168,634</u>	<u>600,352</u>	<u>81,435</u>	<u>13,339,894</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	896,946				896,946
General government	3,441,611	928,392			4,370,003
Public safety	792,929	144,212			937,141
Public works	3,291,320	244,521			3,535,841
Public health and sanitation	386,723	63,000			449,723
Welfare	243,994	3,061,860			3,305,854
Recreation	430,128				430,128
Human services	62,911				62,911
Principal retirement	270,000		335,000		605,000
Interest	118,864		260,790		379,654
<b>Capital outlays</b>	<u>12,030</u>	<u>802,983</u>		<u>954,121</u>	<u>1,769,134</u>
<b>Total expenditures</b>	<u>9,947,456</u>	<u>5,244,968</u>	<u>595,790</u>	<u>954,121</u>	<u>16,742,335</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(2,457,983)	(76,334)	4,562	(872,686)	(3,402,441)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bonds and notes issuance	1,300,000			1,070,000	2,370,000
<b>Total other financing sources (uses)</b>	<u>1,300,000</u>			<u>1,070,000</u>	
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)</b>	(1,157,983)	(76,334)	4,562	197,314	(1,032,441)
<b>Fund balances beginning, as restated</b>	<u>56,979</u>	<u>155,127</u>	<u>1,231,488</u>	<u>1,730,227</u>	<u>3,173,821</u>
<b>Fund balances (deficit), ending</b>	<u>(\$1,101,004)</u>	<u>\$78,793</u>	<u>\$1,236,050</u>	<u>\$1,927,541</u>	<u>\$2,141,380</u>

See accompanying notes to general purpose financial statements.

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

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Property taxes	\$2,705,874	\$2,856,043	\$150,169	\$614,567	\$600,352	(\$14,215)
Municipal license taxes	1,160,366	1,012,263	(148,103)			
Licenses and permits	380,000	137,822	(242,178)			
Intergovernmental	2,390,554	2,364,423	(26,131)			
Rent of property	9,000	4,169	(4,831)			
Fines and penalties	1,000	2,270	1,270			
Interest	60,000	238,837	178,837			
Miscellaneous	882,610	673,477	(209,133)			
<b>Total revenues</b>	<u>7,589,404</u>	<u>7,289,304</u>	<u>(300,100)</u>	<u>614,567</u>	<u>600,352</u>	<u>(14,215)</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	979,877	951,469	28,408			
General government	3,224,866	3,451,630	(226,764)			
Public safety	789,029	794,401	(5,372)			
Public works	3,059,432	3,083,649	(24,217)			
Public health and sanitation	386,723	386,723				
Welfare	265,180	250,703	14,477			
Recreation	443,100	433,705	9,395			
Human services	63,167	62,911	256			
<b>Capital outlays</b>	16,621	12,575	4,046			
<b>Debt service:</b>						
Principal retirement	270,000	270,000		360,000	335,000	25,000
Interest	148,313	118,864	29,449	254,567	260,790	(6,223)
<b>Total expenditures and encumbrances</b>	<u>9,646,308</u>	<u>9,816,630</u>	<u>(170,322)</u>	<u>614,567</u>	<u>595,790</u>	<u>18,777</u>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>	(2,056,904)	(2,527,326)	(470,422)		4,562	4,562
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in	2,506,904	1,300,000	(1,206,904)			
<b>Total other financing sources (uses)</b>	<u>2,506,904</u>	<u>1,300,000</u>	<u>(1,206,904)</u>			
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures, encumbrances and other financing (uses)</b>		(1,227,326)	(1,677,326)			
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Net change in encumbrances		195,903				
GAAP adjustments to revenues		200,169				
GAAP adjustments to expenditures		(326,729)				
<b>Fund balances beginning, as restated</b>		56,979			1,231,488	
<b>Fund balances (deficit), ending</b>		<u>(\$1,101,004)</u>			<u>\$1,236,050</u>	

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The **Municipality of Peñuelas** (the Municipality) was established in 1793. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and twelve 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 there are no potential component units, which should be included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**B. Basis of presentation:**

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

**Governmental fund types:**

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

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

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

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

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

**Account groups:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**C. Basis of accounting:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**D. Reservations of fund balance:**

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

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

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

**E. Budgetary data:**

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**E. Budgetary data (continued):**

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

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

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

**F. Inventories:**

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

**G. Property and equipment:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**H. Cash and cash equivalents:**

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

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

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**J. Compensated absences:**

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

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

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

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

**K. Insurance:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

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

**L. Total columns (memorandum only):**

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

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

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

**N. Claims and judgments:**

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

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

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

Puerto Rico Aqueduct and Sewer Authority	\$ 16,661
General Services Administration	6,945
Retirement System Administration	<u>58,796</u>
Total	<u>\$ 82,402</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):**

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

Municipal Revenue Collection Center	\$ 1,831,386
Department of Treasury (Property tax advances)	4,561,291
Department of Treasury (Social Security)	66,730
Department of Treasury (Case #93-1611)	45,000
Department of Treasury (Case #93-2579CCC)	125,990
Puerto Rico Electric Power Authority	53,318
Department of Labor	106,481
Total	<hr/> <u>\$ 6,790,196</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 8.33% for real property and 6.33% 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 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**3. PROPERTY TAXES (CONTINUED):**

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were in excess of actual advances by \$200,169 according to CRIM preliminary liquidation. Such amount was included as intergovernmental receivable in the General Fund at June 30, 2001.

**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	1.25%
Savings and loans associations	1.00%
Other organizations	0.40%

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 PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**5. INTERGOVERNMENTAL (CONTINUED):**

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

**6. CASH AND CASH EQUIVALENTS:**

Cash in bank accounts	\$ 1,285,843
Certificates of deposit (90 days or less)	-
 Total cash and cash equivalents	 \$ 1,285,843

**7. DEBT SERVICE FUND:**

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

**8. GENERAL FIXED ASSETS:**

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

Description	Balance July 1, 2000	Additions and adjustments	Retirements and adjustments	Balance June 30, 2001
Land	\$ 2,686,741	\$ -	\$ -	\$ 2,686,741
Building and Improvements	8,448,219			8,448,219
Machinery and Equipment	4,270,967	67,296		4,338,263
 Total	 \$ 15,405,927	 \$ 67,296	 \$ -	 \$ 15,473,223

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS:**

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

Balance at July 1, 2000	\$ 5,291,000
Debt issued	2,370,000
Principal retirements	(525,000)
Adjustments and/or Reclassifications	10,000
Balance at June 30, 2001	\$ 7,146,000

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1978 Series	1-1-02	\$ 153,000	5.00%	\$ 8,000
1980 Series	1-1-03	212,000	5.00%	30,000
1983 Series	1-1-05	182,000	5.00%	42,000
1985 Series	1-1-05	125,000	5.00%	36,000
1990 Series	7-1-04	315,000	3.26 to 8.40%	140,000
1994 Series	7-1-03	1,175,000	5.00 to 8.00%	450,000
1999 Series	7-1-18	2,630,000	5.00 to 7.81%	2,570,000
2000 Series	7-1-09	1,760,000	5.00 to 7.81%	1,500,000
2001 Series	7-1-17	1,070,000	5.00 to 8.00%	1,070,000
2001 Series	7-1-10	1,300,000	5.00 to 8.00%	1,300,000
Total general obligation bonds				\$ 7,146,000

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

Year ended June 30	Total
2002	\$ 536,000
2003	574,000
2004	605,000
2005	491,000
2006	450,000
Thereafter	4,490,000
Total	\$ 7,146,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**9. GENERAL OBLIGATION BONDS (CONTINUED):**

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.

**10. NOTES AND LEASE OBLIGATIONS PAYABLE:**

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

Balance at July 1, 2000	\$ 260,000
Debt issued	-
Payments during the current year	<u>(80,000)</u>
Balance at June 30, 2001	<u>\$ 180,000</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1998 Series	7-1-02	\$ 400,000	4.87% - 6.71%	<u>\$ 180,000</u>
Total notes payable				<u>\$ 180,000</u>

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

Year ended June 30	Total
2002	\$ 85,000
2003	<u>95,000</u>
Total	<u>\$ 180,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**10. NOTES 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, 2001.

Year ended June 30	Total
2002	\$ 430,331
2003	430,331
2004	430,331
2005	430,331
2006	430,331
Minimum lease payments for all capital leases	2,151,655
Less: Amount representing interest at the Municipality's incremental borrowing rate of interest	(436,060)
Present value of minimum lease payments	\$ 1,715,595

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED):**

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

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

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
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:

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**11. RETIREMENT PLAN (CONTINUED):**

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

**Defined Contribution Plan**

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

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

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately **\$261,000**. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**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 PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**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. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**14. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balances for General 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	Debt Service
Beginning Fund Balances (Deficit) at July 1, 2000	\$ (47,919)	\$ 1,244,234
To eliminate General Fund interfund receivable with the Debt Service Fund	(14,503)	14,503
Change in revenue recognition		(27,249)
To reclassify debt with the Puerto Rico Electrical Power Authority from General Fund to General Long Term Debt Account Group	119,401	
Beginning Fund Balances at July 1, 2000, as restated	<u>\$ 56,979</u>	<u>\$ 1,231,488</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ <u>209,019</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>209,019</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program (Cluster of Programs):			
Section 8 Rental Voucher Program	14.855		580,632
Section 8 Rental Certificate Program	14.857		<u>5,021</u>
Total Cluster of Programs			585,653
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	99-FD-51 00-FD-51	<u>683,861</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>1,269,514</b></u>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Direct Program:			
Public Safety Partnerships and Community Policing Grant	16.710		95,145

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office): Juvenile Justice and Delinquency Prevention	16.540	Not Available	35,211
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law Enforcement Block Grant	16.592	Not Available	<u>7,781</u>
<b>Total U.S. Department of Justice</b>			<u><b>138,137</b></u>
 <b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management - State and Local Assistance	83.534	Not available	5,225
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR): Public Assistance Grant	83.544	1136-DR-PR 1247-DR-PR	<u>197,730</u>
<b>Total U.S. Federal Emergency Management Agency</b>			<u><b>202,955</b></u>
 <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care & Development Block Grant	93.575	Not Available	10,084

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico – Administration for Children and Families: Head Start Program	16.540	02-CH-483-35 02-CH-483-36	<u>2,655,417</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>2,665,501</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 4,485,126</b></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2001**

**1. BASIS OF PRESENTATION:**

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

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

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

<u>Description</u>	<u>Special Revenue</u>
Per Schedule of Expenditures of Federal Awards	\$ 4,485,126
Non federal programs expenditures	<u>759,842</u>
Total expenditures in the general purpose financial Statements	<u>\$ 5,244,968</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 Assembly  
Municipality of Peñuelas  
Peñuelas, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Peñuelas** as of and for the year ended June 30, 2001, and have issued our report thereon dated February 8, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, we were unable to obtain sufficient competent evidential matter related to obligations under capital lease agreements presented in the general long-term debt account group, and to obtain sufficient competent evidential matter from the Municipal Revenue Collection Center or the Government Development Bank of Puerto Rico with respect to a \$430,331 included as intergovernmental receivable in the General Fund. 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 Peñuelas'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*.

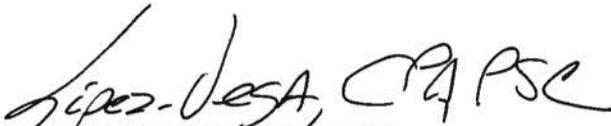
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Peñuelas'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 Peñuelas's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-04**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item **01-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Peñuelas** in a separate letter dated February 8, 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  
February 8, 2002

Stamp No.1785240 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 Assembly  
Municipality of Peñuelas  
Peñuelas, Puerto Rico**

Compliance

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

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Peñuelas'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 Peñuelas's** compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Peñuelas** with the Section 8 Rental Voucher and Certificate Programs (Cluster of Program), regarding the reporting-performance reporting requirement related to the HUD-52648 SEMAP Certification (finding **01-08**), and the reporting-special reporting requirement related to the HUD-50058 Family Report (finding **01-09**), nor were we able to satisfy ourselves as to the **Municipality of Peñuelas's** compliance with those requirements by other auditing procedures.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Peñuelas's** compliance with the requirements of Section 8 Rental Voucher and Certificate Programs (Cluster of Program) regarding the reporting-performance and the reporting-special reporting requirements related to the HUD-52648 SEMAP Certification and to the HUD-50058 Family Report, respectively, the **Municipality of Peñuelas's** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30,2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-06**, and **01-10** through **01-12**.

Internal Control Over Compliance

The management of the **Municipality of Peñuelas** 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 Peñuelas'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 Peñuelas's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-05** through **01-12**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above we consider items **01-06**, and **01-10** through **01-12** to be material weaknesses.



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

We 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 Peñuelas** in a separate letter dated February 8, 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  
February 8, 2002

Stamp No.1785241 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2001**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

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

Internal control over financial reporting:

Material weakness identified? Yes X No \_\_\_\_\_

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

Noncompliance material to financial statements noted? Yes \_\_\_\_\_ No X

**Federal awards**

Internal Control over major programs:

Material weakness identified? Yes X No \_\_\_\_\_

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

Type of auditors’ report issued on compliance  
for major programs: **Qualified**

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>
14.855	Section 8 Rental Voucher Program (Cluster)
14.857	Section 8 Rental Certificate Program (Cluster)
93.600	Head Start Program

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

Auditee qualified as low-risk auditee? Yes \_\_\_\_\_ No X

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

**Finding Reference      01-01**

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

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

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

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

**Effect of Condition** The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>01-02</b>
<b>Requirement</b>	<b>Accounting System</b>
<b>Statement of Condition</b>	During our examination of the Municipality's accounting system we noted that it did 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.
<b>Criteria</b>	Article 8.010 of State Act Number 81 of August 30, 1991 states that Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	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.
<b>Effect of Condition</b>	The Municipality accounting records did not provide updated and complete financial information that the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
<b>Recommendation</b>	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.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation will be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>01-03</b>
<b>Requirement</b>	<b>Expenditures for Goods and Services and Account Payables – Purchasing and Receiving</b>
<b>Statement of Condition</b>	<p>During our examination of the Municipality’s procedures related to the purchasing and receiving process we examined thirty-two (32) disbursement vouchers and we noted the following situations.</p> <ul style="list-style-type: none"><li>a. Three (3) disbursement vouchers were not marked as paid.</li><li>b. We did not find evidence of three (3) quotations requested prior to good or services acquisition in our examination of five (5) disbursement vouchers.</li><li>c. One (1) disbursement voucher did not have evidence of receipt of equipment purchased.</li><li>d. The Municipality did not request and obtain the Municipal Assembly authorization prior to buying a vehicle in the open market in which the formal bid (competition) was declared inadequate.</li></ul>
<b>Criteria</b>	<p>The Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.</p>
<b>Cause of Condition</b>	<p>The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>01-03 (Continued)</b>
<b>Requirement</b>	<b>Expenditures for Goods and Services and Account Payables - Purchasing and Receiving</b>
<b>Recommendation</b>	We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before the payment is made. Also, we recommend that the Municipality should improve its procedures to assure that at least three (3) quotations would be requested for all purchase of goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed these limits. Also, authorization from Municipal Assembly should be requested before the acquisition of goods and services in which the bidder did not participated in the formal bid.
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

**Finding Reference**        **01-04**

**Requirement**            **Cash Receipts, Excise Taxes and Municipal License Taxes**

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

- a. In one (1) case the deposit slip was not available to be examined by us.
- b. In one (1) case the cash collection was for reimbursement of expenditures of a Federal program to the General Fund. This transaction was recorded as revenue instead of expenditure.
- c. In one (1) case the cash collection was recorded twice in the Revenues Register since the Official Collector issued two receipts for the same amount.
- d. In four (4) cases we did not find the copy of the Municipal License Tax Certificate in the Taxpayer file.
- e. In four (4) cases the Taxpayer Volume Sales Tax File was not available for examination.
- f. In three (3) occasions we did not find copy of the Income Tax Return in the Sales Volume Taxpayer's file.
- g. In nine (9) cases the amount collected was deposited in the bank before the receipt was issued.
- h. One (1) receipt was voided but no comment was written to explain the reason for such cancellation.
- i. In one (1) case the cash collection was deposited several days after cash receipt date.
- j. In one (1) case the cash was received via Electronic Fund Transfer (EFT) on October 3, 2000, and the Official Collector Receipt was issued on November 13, 2000.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>01-04 (Continued)</b>
<b>Requirement</b>	<b>Cash Receipts, Excise Taxes and Municipal License Taxes</b>
<b>Criteria</b>	<p>The Section Four (4) of the Chapter three (3) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Collector should realize a daily revision of amount collected and amounts debited in bank by governmental agencies to assure that the revenues has been duly processed in the period of collection.</p> <p>The Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statement in the case of taxpayers with a volume of business in excess of one million \$1,000,000, Municipal License Tax Certificate, etc.</p>
<b>Cause of Condition</b>	There is no internal control procedure implemented to assure that Taxpayer files are properly documented.
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control to determine which taxpayer has submitted the required documentation to comply with excise tax and municipal license tax regulation.
<b>Recommendation</b>	We recommend that the Municipality's Official Treasurer should deposit cash collections daily. Also, we recommend maintaining control procedures to assure that all collections be recorded on time in the Municipality accounting records. Also, the Municipality should assign a qualified municipal employee to verify that the volume sales taxpayer files contain all documents required by law.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-05</b>
<b>Program</b>	<b>Section 8 Rental Programs (CFDA. No. 14.855 and 14.857); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Allowance Cost/Cost Principles</b>
<b>Statement of Condition</b>	During our audit procedures of internal control over disbursement process we found that forty (40) disbursement vouchers paid by the program and the supporting documents for that payments were not stamped as paid.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (3) states that Municipality must maintain effective internal control and accountability for all grants and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
<b>Cause of Condition</b>	There were no adequate internal control procedures implemented to assure this compliance.
<b>Effect of Condition</b>	Invoices could be paid twice by the Municipality resulting in unallowable cost.
<b>Recommendation</b>	Municipality should stamp as paid all disbursement supporting documents in order to assure compliance with this requirement
<b>Questioned Costs</b>	None
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-06</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Eligibility Test</b>
<b>Statement of Condition</b>	<p>We performed an eligibility test and examined a sample of forty (40) participant files. The following will summarize the deficiencies found:</p> <ul style="list-style-type: none"><li>a. In seven (7) cases there was no evidence of application form in the participant file.</li><li>b. In forty (40) cases there was no Federal-prescribed general release form for employment information signed by the head of household.</li><li>c. In forty (40) cases there was no Privacy Act Notice form signed by the head of household.</li><li>d. In six (6) cases some members of the family who are at least 18 years old did not sign the application form and/or other release forms included in the participant's file.</li><li>e. In four (4) cases there was no adequate evidence of family income</li><li>f. In two (2) cases one member of the family had a criminal record.</li><li>g. In two (2) cases the tenant had a debt with PHA and we could not find an agreement for the payment of such debt.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Sections 5.212, 5.230, and 5.601 through 5.617 as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-06 (Continued)</b>  As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federal-prescribed general release form for employment information and a privacy act notice.
<b>Cause of Condition</b>	The Municipality did not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.212, 5.230, and 5.601 through 5.617.
<b>Recommendation</b>	We recommend the Program to establish the following procedures:  a. Provide an application form to be filled by the participant and signed by all members of the family who are at least 18 years old.  b. Provide a Federal-prescribed general release form for employment information and a privacy act notice to be signed by all members of the family who are at least 18 years old.  c. Implement internal control procedures to assure that the participant's files include all documentation required by federal agencies.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-07</b>
<b>Program</b>	<b>Section 8 Rental Programs (CFDA. No. 14.855 and 14.857); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting - Financial Reporting</b>
<b>Statement of Condition</b>	In our evaluation of Reporting we noted the following:  <ol style="list-style-type: none"><li>1. The Municipality reported as expenditure in the submitted HUD-52681 Vouchers for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0149) for the year ended June 30, 2001, the housing assistance payments issued during the fiscal year 2000-2001 on behalf of one portability participant.</li><li>2. The accounting information was prepared after year-end.</li></ol>
<b>Criteria</b>	OMB Circular A-87, Attachment C, states that to be allowable under Federal awards, costs must be net of all applicable credits, such as receipt or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. OMB Common Rules, Subpart C, 24 CFR Section 85.20 (b) (2) states that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
<b>Cause of Condition</b>	There were no adequate internal control procedures implemented to assure compliance with OMB Circular A-87 and the Municipality is not in compliance with Subpart C, Section 85.20 (b) (2).
<b>Effect of Condition</b>	Municipality submitted Year-End Settlement Statement reports with overstated expenditures. Municipality cannot adequately identify the source and application of funds until year-end.
<b>Recommendation</b>	We recommended to management to implement internal control procedures in order to comply with OMB Circular A-87 and maintain adequate and accurate accounting records throughout the entire fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **01-07 (Continued)**

**Questioned Costs**      None

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-08</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting - Performance Reporting</b>
<b>Statement of Condition</b>	During our reporting test we found that the SEMAP report was not available for our examination. The Municipality did not keep a copy of SEMAP report submitted at HUD in their records.
<b>Criteria</b>	Code of Federal Regulations 24, Section 985 states that under SEMAP, PHA's submit an annual certification, Form HUD-52648 (OMB No. 2577-0215), to HUD concerning their compliance with program requirements under fourteen (14) indicators of performance. Finally, HUD will realize on site visits and verify the independent auditors annual audit reports to assure the compliance with this requirement.
<b>Cause of Condition</b>	The program does not maintain adequate controls to assure that the SEMAP report was printed and maintained on file.
<b>Effect of Condition</b>	The Municipality did not maintain evidence to comply with Code of Federal Regulations 24, Section 985.3.
<b>Recommendation</b>	We recommend to the Municipality Management to print SEMAP report each time it is completed through the computer system and to maintain proper records to support SEMAP Report answers.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-09</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting – Special Reporting</b>
<b>Statement of Condition</b>	During our examination of forty (40) participant files we noted that the HUD 50058 Form, Family Report (OMB No. 2577-0083) were not been printed and maintained in the participant files every time there was a change in family composition, family income or other situations that may affect the calculation of the total tenant payment. Only HUD 50058 Form manually completed was maintained on each file. Therefore, we could not obtain evidence about submission of such Form electronically to HUD when requested.
<b>Criteria</b>	Code of Federal Regulation 24, Sec.908, has establish that PHA must submit HUD-50058 Form, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, other change of unit for a family, etc.
<b>Cause of Condition</b>	The HUD 50058 Form, Family Report (OMB No. 2577-0083) was not printed and maintained in the participant file every time there was a change in family composition, family income or other situations that may affect the calculation of the total tenant payment.
<b>Effect of Condition</b>	The Municipality did not maintain evidence about compliance with the Code of Federal Regulation 24, Sec. 908.
<b>Recommendation</b>	We recommend that the HUD 50058 Form, Family Report (OMB No. 2577-0083) be printed and maintained in the participant file every time there is a change in family composition, family income or other situations that may affect the calculation of the total tenant payment.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Federal Programs Office will implement controls to assure that applicable documentation of the determination of reasonable rent is maintained in participant's files.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-10</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Housing Quality Standards Inspections</b>
<b>Statement of Condition</b>	During our verification of forty (40) participant files we noted the following deficiencies: <ul style="list-style-type: none"><li>a. In the forty (40) cases we did not find evidence of quality control re-inspections.</li><li>b. In six (6) cases where the correction period had ended no evidence was found to support that corrections required by PHA were completed.</li><li>c. In six (6) cases we did not find evidence that shows that the PHA property stopped (abated) HAP's or terminated the HAP contract.</li></ul>
<b>Criteria</b>	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 reinspections. Also, the PHA must prepare a unit inspection report.
<b>Cause of Condition</b>	Management does not have adequate internal control procedures to assure that annual inspections and quality control reinspections are realized and properly documented.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b)

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-10 (Continued)</b>
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that annual inspections and quality control reinspections are realized and properly documented.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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 PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-11</b>
<b>Program</b>	<b>Section 8 Rental Programs (CFDA. No. 14.855 and 14.857); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Tests and Provisions</b>
<b>Statement of Condition</b>	We noted that the waiting list maintained by the Municipality did not contain all required information to assure that the selection of new tenants admitted to the program were in accordance with the Public Housing Agency tenant selection polices. Also, some application forms completed by families interested on program services were not posted in the waiting list maintained by the Program.
<b>Criteria</b>	Code of Federal Regulations 24, CFR, Subpart E, Section 982.209 (a) (1), (2) establishes that the PHA may establish a system of local preferences for selection of families admitted to the program. PHA selection preferences must be described in the PHA administrative plan. In establish the PHA system of local preferences must be based on local housing needs and priorities, as determined by the PHA. In determining such needs and priorities the PHA shall use generally accepted data sources. The PHA shall consider public comment on the proposed public housing agency plan and on the consolidated plan for the relevant jurisdiction.
<b>Cause of Condition</b>	The Municipality does not include all information required in the waiting list. Also, the application forms completed by the applicants were kept in the Office of Federal Program Director, but each applicant information has not been posted in the waiting list.
<b>Effect of Condition</b>	Municipality is not in compliance with 24 CFR, Subpart E, Section 982.209 (a) (1) and 982.209 (a) (2). The Municipality cannot guarantee that the selection of participant comply with administrative plan and the Program regulation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **01-11 (Continued)**

**Recommendation**      We recommended to management to revise the waiting list to comply with all requirements of the regulation program and administrative plan. This should include all application forms, applicant name, family unit size, date and time of application, qualification for any local preference and ethnic designation of the head of household. Also, all application forms completed by applicants interested on program services should be posted in the waiting list.

**Questioned Costs**      None

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>01-12</b>
<b>Program</b>	<b>Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Reasonable Rent</b>
<b>Statement of Condition</b>	During our verification of forty (40) participant files we noted that the determination of reasonable rent was not documented in the participant file.
<b>Criteria</b>	Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent to the owner is reasonable.
<b>Cause of Condition</b>	The Municipality did not maintain records to document the basis for the determination that the rent to the owner is reasonable.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507.
<b>Recommendation</b>	We recommend that the Municipality should implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participants file.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipal Office of Federal Programs will implement controls to assure that applicable documentation of the determination of reasonable rent is maintained in participant's files.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2001**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-III-01	14.228	<u>Activities Allowed or Unallowed - Housing Rehabilitation Activities</u>  Full corrective action has been taken.
00-III-02	14.228 14.855 14.857	<u>Allowable Cost\Cost Principles</u>  No corrective action has been taken. The Program staff was instructed to stamp as paid all disbursement vouchers.
00-III-03	14.855 14.857	<u>Allowable Cost\Cost Principles</u>  Partial corrective action has been taken. The Program staff that maintains accounting records has identified portability participants in order to not include such payments when reporting Program expenditures. Related to questioned cost reported by prior auditors, this are pending for a management decision from HUD.
00-III-04	93.600	<u>Davis-Bacon Act</u>  Full corrective action has been taken.
00-III-05	14.228	<u>Procurement and Suspension and Debarment</u>  Full corrective action has been taken.
00-III-06	93.600	<u>Procurement and Suspension and Debarment</u>  Full corrective action has been taken.
00-III-07	14.855 14.857	<u>Reporting</u>  No corrective action has been taken. The Program staff that maintains accounting records was instructed to post financial transactions on a monthly basis.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PEÑUELAS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2001**

<b>Original Finding Number</b>	<b>CFDA No.</b>	<b>Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)</b>
00-III-08	14.855 14.857	<u>Special Tests and Provisions</u>  No corrective action has been taken. The required information will be included in the waiting list.
00-III-09	14.855 14.857	<u>Special Tests and Provisions</u>  No corrective action has been taken. Internal control procedures will be implemented to assure that housing inspection's be conducted as required by Federal regulations.