

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE QUEBRADILLAS**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS**

**SINGLE AUDIT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2002**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30,2002**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
the Municipal Assembly  
Municipality of Quebradillas  
Quebradilla, Puerto Rico

I have audited the accompanying general-purpose financial statements of the Municipality of Quebradillas, as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Quebradillas management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

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

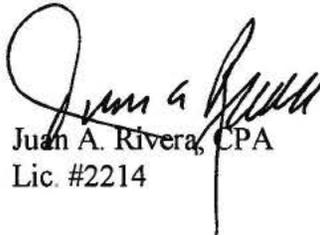
As describe in Note 6, the Municipality of Quebradillas has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, I was unable to satisfy my selves as to fixed assets balance or such all groups amounting to \$ 14,860,769 for the year 2002.

The Municipality does not maintain adequate accounting records for recording its financial transaction. Although the accounting records currently used by the Municipality contains substantially all financial events, such records do not provide on a timeliness basis adequate financial reports. The effects on the general- purpose financial statements of this condition are not reasonably determinable.

In my opinion, except for the effect of such adjustments, if any as might have been determined to be necessary, had I been able to audit the adequacy of the General Fixed Assets Account Group, and the adequacy of the accounting records as explained in the preceding paragraphs, the general purpose financial statements referred to in the first paragraph present fairly, in all material respect, the financial position of the Municipality of Quebradillas, Puerto Rico as of June 30, 2002, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 16, 2002 on my consideration of the Municipality of Quebradillas internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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 Organization, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in my opinion, is fairly stated, in all material respect, in relation to the general-purpose financial statements taken as a whole.



Juan A. Rivera, CPA  
Lic. #2214

December 16, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855569 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF QUEBRADILLAS**  
**COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES**  
**AND ACCOUNT GROUP**  
**As of June 30, 2002**

	<u>GOVERNMENTAL FUND TYPES</u>				<u>ACCOUNT GROUPS</u>		Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	General Fixed Assets	General Long-term Debts	
<b><u>ASSETS AND OTHER DEBITS</u></b>							
Cash	\$14,831	\$212,088		\$22,074			\$248,993
Cash with fiscal agent			\$638,509	94,079			732,588
Receivables							
Due from general fund				184,333			184,333
Due from governmental agencies	797,123						797,123
Patent	28,866						28,866
Rents	14,043						14,043
General Fixed Assets					\$14,860,769		14,860,769
Amount in debt service fund						\$634,509	634,509
Property tax advances						303,142	303,142
Amounts to be provided to:							
Compensate employees benefits						912,720	912,720
Commitment and contingencies						553,834	553,834
Repay general obligations						4,309,291	4,309,291
<b>TOTAL ASSETS</b>	<b>854,863</b>	<b>212,088</b>	<b>638,509</b>	<b>300,486</b>	<b>14,860,769</b>	<b>6,713,496</b>	<b>23,580,211</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>							
<b><u>LIABILITIES</u></b>							
Bank overdraft	630,099						630,099
Accounts payable & accrued expenses	291,698	4,846					296,544
Due to state government agencies	1,934,791						1,934,791
Due to capital project	184,333						184,333
Deferred revenues	286,639	43,632					330,271
Property tax advances						303,142	303,142
Commitment and contingencies						553,834	553,834
Accrued employees benefits						912,720	912,720
General obligations:							
Bonds						2,305,000	2,305,000
Notes						2,638,800	2,638,800
<b>TOTAL LIABILITIES</b>	<b>3,327,560</b>	<b>48,478</b>				<b>6,713,496</b>	<b>10,089,534</b>
<b><u>FUND EQUITY</u></b>							
<b>FUND BALANCE</b>							
Investment in general fixed assets					14,860,769		14,860,769
Reserve for debt service			638,509				638,509
Undesignated							
Designated for future year expenditures	(2,472,697)	163,610		300,486			(2,008,601)
<b>TOTAL FUND EQUITY</b>	<b>(2,472,697)</b>	<b>163,610</b>	<b>638,509</b>	<b>300,486</b>			<b>13,490,677</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$854,863</b>	<b>\$212,088</b>	<b>\$638,509</b>	<b>\$300,486</b>	<b>\$14,860,769</b>	<b>\$6,713,496</b>	<b>\$23,580,211</b>

See accompanying notes to General Purpose Financial Statements

**MUNICIPALITY OF QUEBRADILLAS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Type				Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	
<b>REVENUES:</b>					
Property taxes	\$1,398,575		\$504,522		\$1,903,097
Intergovernmental Grants:	3,765,482				3,765,482
Federal grant contribution		\$831,223			831,223
State grant contribution		345,889		\$982,317	1,328,206
Volume of business tax	460,950				460,950
Interest	453,447		10,520		463,967
Rent	11,447				11,447
Construction - Excise taxes	88,251				88,251
Miscellaneous	41,688				41,688
<b>TOTAL REVENUES:</b>	<b>6,219,840</b>	<b>1,177,112</b>	<b>515,042</b>	<b>982,317</b>	<b>8,894,311</b>
<b>EXPENDITURES:</b>					
General Administration	4,626,085	184,014			4,810,099
Public Works	1,021,050	460,755			1,481,805
Health	327,596	26,101			353,697
Sports and recreation	197,939	46,629			244,568
Civil Defence	31,461	2,289			33,750
Public Relationship	84,553				84,553
Municipal Police	747,180	182,542			929,722
Citizen Business	22,156				22,156
Transportation	364,850				364,850
Elderly Center	129,918				129,918
Environmental Control	511,386				511,386
Welfare		242,010			242,010
Debt service:					
Principal and Interest			404,461		404,461
Capital outlays				2,888,127	2,888,127
<b>TOTAL EXPENDITURES:</b>	<b>8,064,174</b>	<b>1,144,340</b>	<b>404,461</b>	<b>2,888,127</b>	<b>12,501,102</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:</b>	<b>(1,844,334)</b>	<b>32,772</b>	<b>110,581</b>	<b>(1,905,810)</b>	<b>(3,606,791)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Loan with BGF	1,235,000			1,208,800	2,443,800
Transferred from in (out)	342,616	103,858	(436,952)	(9,522)	
<b>TOTAL</b>	<b>1,577,616</b>	<b>103,858</b>	<b>(436,952)</b>	<b>1,199,278</b>	<b>2,443,800</b>
<b>Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(266,718)</b>	<b>136,630</b>	<b>(326,371)</b>	<b>(706,532)</b>	<b>(1,162,991)</b>
<b>Fund balance (Deficit), beginning</b>	<b>(2,205,979)</b>	<b>26,980</b>	<b>964,880</b>	<b>1,007,018</b>	<b>(207,101)</b>
<b>Fund balance (Deficit), ending</b>	<b>(\$2,472,697)</b>	<b>\$163,610</b>	<b>\$638,509</b>	<b>\$300,486</b>	<b>(\$1,370,092)</b>

See accompanying notes to General Purpose Financial Statements

**MUNICIPALITY OF QUEBRADILLAS  
STATEMENT OF REVENUE AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL & DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>			<u>TOTAL (MEMORANDUM ONLY)</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>TOTAL BUDGET</u>	<u>TOTAL ACTUAL</u>	<u>TOTAL VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUE:</b>									
PROPERTY TAX	\$1,398,575	\$1,398,575	\$0				\$1,398,575	\$1,398,575	\$0
INTRAGOVERNMENTAL	3,660,890	3,765,482	104,592				3,660,890	3,765,482	104,592
VOLUME OF BUSINESS TAX	600,000	460,950	(139,050)				600,000	460,950	(139,050)
EXCISE TAX	600,000	88,251	(511,749)				600,000	88,251	(511,749)
INTEREST	71,000	453,447	382,447				71,000	453,447	382,447
RENT	12,000	11,447	(553)				12,000	11,447	(553)
MISCELLANEOUS	749,916	41,688	(708,228)				749,916	41,688	(708,228)
DEBT SERVICE				\$294,416	\$515,043	\$220,627	294,416	515,043	220,627
<b>TOTAL REVENUE</b>	<b>7,092,381</b>	<b>6,219,840</b>	<b>(872,541)</b>	<b>294,416</b>	<b>515,043</b>	<b>220,627</b>	<b>7,386,797</b>	<b>6,734,883</b>	<b>(651,914)</b>
<b>EXPENDITURE:</b>									
MUNICIPAL COUNCIL	168,627	152,333	16,294				\$168,627	\$152,333	16,294
MAYOR OFFICE	334,174	303,088	31,086				334,174	303,088	31,086
FINANCE	1,167,545	996,180	171,365				1,167,545	996,180	171,365
PUBLIC WORK	994,176	976,072	18,104				994,176	976,072	18,104
HEALTH	462,353	327,596	134,757				462,353	327,596	134,757
CIVIL DEFENSE	36,333	31,461	4,872				36,333	31,461	4,872
MUNICIPAL POLICE	756,256	747,180	9,076				756,256	747,180	9,076
PERSONNEL	1,655,482	1,282,352	373,130				1,655,482	1,282,352	373,130
SPORT & RECREATIONS	204,976	197,939	7,037				204,976	197,939	7,037
ELDERLY CENTER	131,536	129,918	1,618				131,536	129,918	1,618
PUBLIC RELATIONSHIP	87,458	84,553	2,905				87,458	84,553	2,905
DAY CARE CENTER	30,885	30,692	193				30,885	30,692	193
CITIZENS BUSINESS	22,492	22,156	336				22,492	22,156	336
SECRETARY	75,785	73,455	2,330				75,785	73,455	2,330
INTERNAL AUDIT	34,957	31,912	3,045				34,957	31,912	3,045
TRANSPOTATION	371,933	364,850	7,083				371,933	364,850	7,083
ENVIRONMENTAL CONTROL	511,488	511,386	102				511,488	511,386	102
RECYCLE	45,925	44,978	947				45,925	44,978	947
DEBT SERVICE:									
PRINCIPAL AND INTEREST				294,416	841,413	(546,997)	294,416	841,413	(546,997)
<b>TOTAL EXPENDITURE</b>	<b>7,092,381</b>	<b>6,308,101</b>	<b>784,280</b>	<b>294,416</b>	<b>841,413</b>	<b>(546,997)</b>	<b>7,386,797</b>	<b>7,149,514</b>	<b>237,283</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>\$0</b>	<b>(\$88,261)</b>	<b>(\$1,656,821)</b>	<b>\$0</b>	<b>(\$326,370)</b>	<b>\$767,624</b>	<b>\$0</b>	<b>(\$414,631)</b>	<b>(\$889,197)</b>

See Note to General Purpose Financial Statements

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**a. Organization**

The Municipality of Quebradillas, Puerto Rico (Municipality) was established in 1823. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal personality, separate and independent from the central governmental of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture, and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The mayor and the legislative by the Municipal Assembly, which has 14 members, exercise the executive power. The members of these branches are elected every four years in the Puerto Rico general elections.

**b. Summary of Significant Accounting Policies**

The accounting policies of the Municipality are in accordance with the generally accepted accounting principles applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard- setting body for the governmental accounting and financial reporting.

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and accounts groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**b. Summary of Significant Accounting Policies (Cont.)**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

**a. Governmental Funds**

**I. General Funds**

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

**II. Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

**III. Debt Service Funds**

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

**IV. Capital Project Funds**

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)**

b. Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments, and / or the funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c. Account Groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

I. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

II. General Long-Term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

d. Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

a. General Fund appropriations for recurrent and ordinary functions of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)**

**d. Budgetary Control (Cont.):**

- b. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

**2) Basis of Accounting**

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured, interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees permits, fines, and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**b. Summary of Significant Accounting Policies (Cont.)**

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate to insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil, and other items. The cost of current purchases is recorded as expenditures.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**b. Summary of Significant Accounting Policies (Cont.)**

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to maximum of 60 days and sick leave up to a maximum of 90 days, with the excess paid annually. In the event of 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 year of service terminates all rights for compensation. Employee's entitled vacations and sick leave are accrued in the General Long-Term Debt Account Group.

9) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units, which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

**b. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONT.)**

9) Reporting Entity (Cont.)

**Manifestations of Oversight Responsibility**

Selection of Governing Authority  
Designation of Management  
Ability to influence Operations Significantly

**Accountability for Fiscal Matters**

Budgetary Authority  
Surplus / Deficit  
Responsibility for Debt  
Fiscal Management  
Revenue Characteristics

Factors other than oversight, which may significantly influence the entity relationship, are:

**Scope of Public Service  
Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. My specific evaluations of the criteria applicable to the Municipality of Quebradillas indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

10) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in United States of America requires management to make estimates and assumptions that affect the reported amount of statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

10) Use of Estimates (Cont.)

and the reported amount of revenues and expenditures during the reporting period.

**2. CASH AND SHORT-TERM INVESTMENTS**

**a. Cash in Bank and Concentration Risk**

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in two banks located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

**b. Cash with Fiscal Agents**

An additional special tax 1.25 % of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the balance of cash retained by the Government Development Bank for debt service purposes. At June 30, 2002, the balance of cash retained by the Government Development Bank amounted to \$638,509.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2002, the balance of cash retained by the Governmental Bank available for the acquisition of real property and federal program amounted to \$ 94,079.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**3. PROPERTY TAXES**

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy, and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return, which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 6.08% for real property and 8.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basis property	4.00%	6.00%
Additional special property – state	1.03%	1.03%
Additional special property – municipal	1.25%	1.25%
Discount made by state to taxpayer	<u>&lt;.20%&gt;</u>	<u>&lt;.20%&gt;</u>
 Total	 6.08% =====	 8.08% =====

The “Additional special property tax – municipal” is restricted for service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The “ Additional special property tax – state” is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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 Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of les than \$3,500,

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**3. PROPERTY TAXES (CONT.)**

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 Municipal Revenues Collection Center.

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

The Municipal Revenue Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipality Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

**4. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002, the annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Quebradillas, and not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed five days workable after April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Quebradillas are as follows:

Financing institution	=	1.50%
Other organizations		
Volume up to 100,000	=	.30%
Volume up to 200,000	=	.40%
Volume up to 300,000	=	.50%

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**4. MUNICIPAL LICENSE TAX (CONT.)**

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$286,639, corresponding to the next fiscal municipal license.

**5. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services, and U.S. Department of Labor.

**6. GENERAL FIXED ASSETS**

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs, and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in its future.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$13,184,206
Vehicles, equipment, and furniture	<u>1,676,563</u>
Total general fixed assets	<u><u>\$14,860,769</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**7. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local agencies:

**General Fund**

Electric Power Authority	\$ 797,123
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**8. DUE FROM (TO) OTHER FUNDS**

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due-from) and inter-fund payable (due-to) balances.

The due from and due to other balances as June 30, 2002, are as follows:

	<b><u>Due from Other Fund</u></b>	<b><u>Due to Other Fund</u></b>
<b>General Fund</b>		
Capital Project Fund		\$ 184,333
<b>Capital Project</b>		
General Fund	<u>\$ 184,333</u>	_____
	<u><u>\$ 184,333</u></u>	<u><u>\$ 184,333</u></u>

**9. DUE TO OTHER AGENCIES**

The composition of this account is as follows:

	<b><u>General Fund</u></b>
Water and Sewer Authority	\$ 94,754
Electric Power Authority	600,176
General Service Administration	26,538
Treasury Department	735,070
Puerto Rico Telephone Company	128,462
Retirement System	347,738
Internal Revenue Service	<u>2,053</u>
	<u><u>\$1,934,791</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**10. GENERAL LONG-TERM DEBTS**

The general long-term debts' transactions as of June 30, 2002 are as follows:

Balance July 1, 2002	\$ 2,780,000
Additions	3,208,800
Payments	<u>( 1,045,000)</u>
Balance June 30, 2002	<u>\$ 4,943,800</u>

General long-term debt obligations at June 30, 2002 are as follows:

**Bonds**

\$410,000 series of 1992, payable in annual installments of \$25,000 to \$60,000 until July 1, 2002, interest from 5% to 8.50%	60,000
\$505,000 series of 1999, payable in annual installments of \$420,000 to \$115,000 July 1, 2003, interest from 6% to 7.5%.	225,000
\$680,000 series of 1999, payable in annual installments of \$45,000 to \$95,000 until July 1, 2009, interest at 8%	585,000
\$1,010,000 series of 1999, payable in annual installments of \$70,000 to 140,000 until July 1, 2009; interest at 8%	865,000
2,000,000 series of 2002, payable in annual installments of \$20,000 to \$175,000 until July 1, 2026, interest at 7 %	2,000,000
\$638,800 series of 2002, payable in annual installments of \$10,700 to 49,200 until July 1, 2027, interest at 6.5%	638,800
\$570,000 series of 2002, payable in annual installments of \$10,000 to 50,000 until July 1, 2026, interest at 5% to 6.5%	<u>570,000</u>
<b>SUBTOTAL</b>	<b>4,943,800</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**10. GENERAL LONG-TERM DEBTS (CONT.)**

**Other Long – term Debts**

Property tax advance –	303,142
Compensation Employees Benefit (Vacations, Sick leaves)	912,720
Commitment and Contingencies –	<u>553,834</u>
<b>SUBTOTAL</b>	<u>1,769,696</u>
	<u>\$6,713,496</u>

The annual requirements for the amortization of general long-terms at June 30, 2002 are as follows:

<b><u>Year Ended June 30</u></b>	<b><u>Amount</u></b>
2003	\$580,290
2004	627,762
2005	505,279
2006	504,804
2007	503,248
Thereafter	<u>6,149,767</u>
	8,871,150
Amount representing interest	<u>(3,927,350)</u>
	<u>\$4,943,800</u>

As described in Note 3, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Services Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the General Government of Puerto Rico and its Instrumentalities (ESR) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

The Systems provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at twenty-five (25) years of creditable service of members who have attained an age of at least fifty – eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one – half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$ 200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75 %of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service. Not benefit is payable if the participant receives a refund of his accumulated contributions.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN (CONT.)**

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2000 was \$124,159. The Municipality's payroll for employees covered by ESR was \$884,323. The Municipality total payroll for all employees was \$3,826,176.

**12. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.
- b. The Municipality is a defendant and/ or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that it is probable that a liability will be incurred in a future, and estimated loss would be approximately a total of \$ 553,834.

**13. LEASES**

Leasing arrangements with the Municipality as less or are as follows:

- a. The Municipality leases spaces in its Market Place and Transportation Center under operating lease agreements with terms ranging from one to five years.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**13. LEASES (CONT.)**

- b. Total income from leases during the year ended June 30, 2001 was approximately \$ 11,447.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**14. BUDGETARY COMPARISONS**

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with generally accepted accounting principles.

The principal difference between budgetary basis and accounting principles generally accepted in the United States of America, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by accounting principles generally accepted in the United States of America.
- c. Under accounting principles generally accepted in the United States of America, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**14. BUDGETARY COMPARISONS (CONT.)**

The necessary adjustment to reconcile the revenues and expenditures at the end of the year from the accounting principles generally accepted in the United States of America to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Accounting basis per the Statement of Revenue and Expenditures – General Fund	\$6,219,840	\$8,064,174
Adjustments:		
Add:		
Current year encumbrances recognized		
As expenditures in the budgetary basis		990,295
Deduct:		
Revenue and expenditures not recorded as revenue or expense on the budgetary basis.		(2,746,368)
Budgetary basis	<u>\$6,219,840</u>	<u>\$6,308,101</u>

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

The Municipality budget is amended by the majority vote of the Municipal Assembly Said amendments is included in the budgetary basis.

**15. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POS-CLOSURE**

The Municipality discontinued the operation and ceased in 1995. States and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance functions at the landfill site. The closing process is through SBGP program, the Municipality has a program for a total cost of \$231,380.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**15. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POS-CLOSURE  
(CONT.)**

The Municipality must to comply with some regulations of the Environmental Quality Control Board. Into these regulations, the Municipality is in process to submit a study that reflects some additional cost to be incurred. The study must be prepared by a Certified Scientific.

**16. SUBSEQUENT EVENT**

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15, 2002; for those with revenues of \$10 million to \$100 million, years beginning after June 15, 2002; and for those with revenues of less than \$ 10 million, years beginning after June 15, 2003.

Under the new reporting model, general-purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statement.
- d. Notes to the financial statements.
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15 , 2002; and for those with revenues of less than \$10 million, years beginning after June 15, 2003.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Pass-through Commonwealth of Puerto Rico Commissions Office of Municipal Affairs Community Development Block Grant-State Program SBGP	14.228	\$ 454,208
Direct Programs		
Section 8 – Housing Choice Voucher	14.156	27,978
Urban Development Action Grant	14.221	<u>5,439</u>
Subtotal U.S. Department and Human		<u>487,625</u>
<b>U.S. Department of Health and Human Services (HHS)</b>		
Pass – through The Puerto Rico Elderly Commission Special programs for aging Title III, Part C, Nutrition Services	13.635	<u>5,086</u>
Subtotal U.S. Department of HUD		<u>5,086</u>
<b>U.S. Department of Agriculture .</b>		
Pass through the Governor’s Office of Child Services and Community Development		
Child and Adult Care Food Program	10.558	166,750
Nutrition Assistance	10.556	<u>42,196</u>
Subtotal U.S. Department of Agriculture		<u>208,946</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)</b>		
Disaster Assistance		
FEMA	83.545	\$ <u>1,108</u>
Subtotal U.S. FEMA		<u>1,108</u>
<b>U.S. Department of Justice</b>		
Pass – through the Governor’s Office of Community Oriented Policing Services		
Cops Hiring Program	16.711	<u>76,869</u>
Title V – Delinquency Program (PIER)	16.548	<u>6,745</u>
Subtotal U.S. Department of Justice		<u>83,614</u>
<b>TOTAL</b>		<u>\$786,379</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**NOTE 1- GENERAL**

The accompanying Schedule of Expenditures of Federal Financial Assistance presents the activities of all federal financial assistance programs of Municipality of Quebradillas, Puerto Rico. The Municipality reporting is defined in Note 1 to the Municipality's general-purpose financial statements. All federal financial assistance passed through other governmental agencies, are included in the schedule.

**NOTE 2- BASIS OF ACCOUNTING**

The accompanying Schedule of Federal Financing Assistance is presented using the modified accrual basis of accounting, which is described in Note 1 of the Municipality's general-purpose financial statements.

**NOTE 3- RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Revenues and expenditures of the Federal Financial Assistance Programs are included in the Municipality's general-purpose financial statements within the Special Revenues. The reconciliation between the expenditures in the general-purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

	<u><b>Expenditures</b></u>
Special Revenue Fund	\$ 1,144,340
Capital Project Fund	<u>2,888,127</u>
Lee non-federal expenditures	4,032,467 <u>(3,246,088)</u>
Expenditures in the Schedule of Federal Financial Financial Assistance	<u>\$ 786,379</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**FISCAL YEAR ENDED JUNE 30, 2002**  
**INTERNAL CONTROL SECTION**

**JUAN A. RIVERA, CPA**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**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 Quebradillas  
Quebradillas, Puerto Rico

**Compliance**

I have audited the compliance of Municipality of Quebradillas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The Municipality of Quebradillas major federal programs are identified in the summary of auditor's 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 Quebradillas management. My responsibility is to express an opinion on the Municipality of Quebradillas compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those Standards and OMB Circular A-133 require that I 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 Quebradillas compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Municipality of Quebradillas compliance with those requirements.

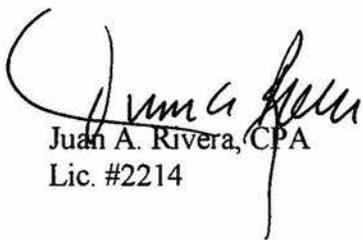
In my opinion, Municipality of Quebradillas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

### **Internal Control Over Compliance**

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

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information and use of the audit committee, Commissioner Office Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Juan A. Rivera, CPA  
Lic. #2214

December 16, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855570 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF QUEBRADILLAS**  
**FISCAL YEAR ENDED JUNE 30, 2002**  
**SINGLE AUDIT SECTION**

**JUAN A. RIVERA, CPA  
CERTIFIED PUBLIC ACCOUNTANT**

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***REPORT ON COMPLIANCE AND 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 Quebradillas  
Quebradillas, Puerto Rico

I have audited the financial statements of the Municipality of Quebradillas as of and for the year ended June 30, 2002, and have issued my report thereon dated December 16, 2002. I conducted my audit in accordance with generally accepted auditing standards 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 Quebradillas's general purpose financial statements are free of material misstatements, I 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 financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my test disclosed instances of noncompliance that are required to be reported under Government Auditing Standars and which are describe in the schedule of reportable condition and recommendations as items 02 (01-02-04-06-08).

**Internal Control Over Financial Reporting**

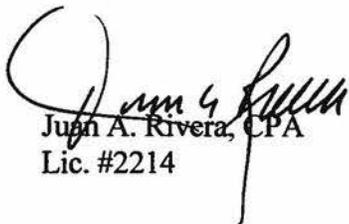
In planning and performing my audit, I considered the Municipality of Quebradillas internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Municipality of Quebradillas ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002 (01-02-04-06-08).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
Juan A. Rivera, CPA  
Lic. #2214

December 16, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855569 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditor's report expresses a qualified opinion on the general purposes financial statements of the Municipality of Quebradillas.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Quebradillas were disclosed during the audit.
- d. There were reportable conditions on internal control over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Quebradillas express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Quebradillas express an unqualified opinion.
- g. The programs tested as major programs included.  
  
State Block Grant Program - CFDA No. 14.228
- h. The Threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Quebradillas was determined to be a high – risk audit.

**2. FINDINGS – FINANCIAL STATEMENTS AUDIT**

See Schedule of Reportable Conditions and Recommendation section.

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

**None.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-01**

**Accounting System**

I noted that the Municipality of Quebradillas is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchased orders and contracts are not adequate, because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

**Recommendation**

I recommend the Municipality of Quebradillas that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system, which should provide the following.

That the Municipality's operations are accounted for through several separate funds and account groups, accounting in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statement by fund category. The Municipality should use the general purpose financial statements based on the following fund and accounts groups:

**a. Governmental Funds**

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-01**

**Accounting System**

1) General

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

2) Special Revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specific purposes.

3) Debt Service

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

4) Capital Project

Is used to account for financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

**b. Proprietary Fund**

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation Accounts are also used in this type of fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-01**

**Accounting System**

**c. Trust and Agency Fund**

Is used account for assets held by the Municipality Agency, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

**d. Account Groups**

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long- term Debt.

1) General Fixed Assets account group

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

2) General Long-term Debt accounts group

Is used to provide accounting control over General Municipal Long-term Debt; except those accounted in the Proprietary and Trust Funds.

The Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired.

This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrances should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and expenses should be recorded when the debt is incurred and the amount is determinable.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-01 (CONT).**

**Auditee Response:**

The municipality are going to entered in contractual agreement with outside consulting firm to help the municipality personnel in make the necessary adjustments to the system to comply with the new reporting requirement by GASB 34. This task will correct the situation mentioned in the previous finding.

**FINDING NUMBER 02-2**

**Accounting Records**

During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:

- a. The balance of the cash transactions report (From 4A), does not agree with various accounts and their respective bank account's reconciliation.
- b. The bank reconciliation for the operating account was not prepared on a timely basis.
- c. The Municipality maintains several cash accounts which are either inactive or have limited activity.
- d. There were various unreconciled material differences between the accounting records of the different funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-2 (CONT.)**

**Accounting Records**

- e. No reconciliation is made general ledger, cash reports, bank reconciliation, and other related subsidiaries and reports. There are material and unreconciled differences between these reports and ledgers.

**Recommendation**

I recommend to the Municipality to maintain a good internal control system in order that all income and expenditure transactions will be record on accounting books correctly; given special treatment to the special funds management by the Municipality. Moreover, the Municipality must to prepare the bank reconciliation of all accounts of the Municipality as required by the Law of Autonomy Municipality on Chapter 8, Article 8.10(j).

**Auditee Response:**

Director of finance was instructed to make the necessities departmet of finance adjustments to correct this situation and enforce the Municipality Internal Control System .

**FINDING NUMBER 02-03**

**Fixed Assets**

During the audit I noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-03(CONT.)**

**Fixed Assets**

- d. There is no supervision process to verify if each department keeps adequate control of the inventory.
2. The Municipality does not maintain a proper record of personal property acquired with Municipal funds.
3. A physical inventory was not taken at year-ends.

**Recommendation**

To improve the internal controls in the area of property, the Property Custodian in coordination with the Finance Director should implement the following procedures:

- a. It is recommended to take a physical inventory once a year. Any discrepancies found should be investigated and proper action taken.
- b. The Department of Property must perform periodical surprise physical observations and / or verification of the related assets to determine their existence and condition.
- c. The Department of Property must record the expenditures for financing charges of issued long- term debts.
- d. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.

**Auditee Response**

Same as state in finding number 02-01

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-4**

**Bank Accounts and Cash Management**

<b>Condition</b>	At June 30, 2002, the bank reconciliation showed overpayment and the differences with the bank.
<b>Criteria</b>	The chapter IV sections 9 and 10 of “reglamento de normas basicas para los municipios de PR” stated; <ul style="list-style-type: none"><li>a. The municipality must show the Bank Balance available in the General Account.</li></ul>
<b>Cause of condition</b>	The Municipality has not established sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected. In addition, the Municipality has not established effective cash management controls.
<b>Effect of condition</b>	Error or irregularities might occur and not be timely detected.
<b>Recommendation</b>	All bank accounts must be reconciled every month and all reconciling differences if any, must be investigated and adjusted accordingly.
<b>Auditee Response:</b>	Director of finance instructed the employee in charge of bank conciliation to analyzed all differences in bank conciliation and prepared the necessary adjustment before second quarter of next year.

**FINDING NUMBER 02-5**

	The following deficiencies were found in the Governmental accounts.
<b>Condition</b>	Municipality outstanding debt with different Governmental entities (Department of Labor Internal Revenues Services and Water and server Authority).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-5 (CONT.)**

<b>Criteria</b>	Law # 81 Article 7.003 established that is mandatory create budget assignments for legally outstanding debts of the municipalities that not included in previous budget. Law number 101 of June 24, 1977, labor law of PR established that is obligatory that all employer submitted quarterly return and pay the accrued labor taxes before the 30 of next month after the quarter.
<b>Cause of condition</b>	The Municipality did not included in budget outstanding debts from prior periods of the year audited; and the Municipality did not prepared the labor tax return and neither made the deposits to department of labor and PR retirement system.
<b>Effect of condition</b>	The Municipality were forced to pay interest and penalties reducing the resources of the Municipality.
<b>Recommendation</b>	The Municipality are obligated to include in the next operational budget all of this accounts balance or analyze the possibility of financing all of this debts trough loan term loan with BGF.
<b>Auditee Response</b>	The municipality management enter in arrangement of payment with different governmental agencies. (Department of Treasury, and Retirement System)

**FINDING NUMBER 02-6**

**Purchasing and Receiving**

<b>Condition</b>	My review of twenty three (23) disbursement vouchers for municipality general fund and twelve (12) for federal funds revealed noncompliance with applicable internal control requirements. My review of the supporting documentation revealed the following documents were missing or incomplete:
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**COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-6 (CONT.)**

**Purchasing and Receiving**

<b>Description</b>	<b>Municipality <u>Funds</u></b>	<b>Federal <u>Funds</u></b>
a. Receiving materials and Service before purchase order	5	
b. Requisition form not found	3	
c. Quotation not found	2	
d. Receiving and inspection sheets not prepared	4	
e. Invoice without certification	6	
f. Documents without signature of pre-interceptor official	4	12
g. Voucher without budget account		7

**Criteria**

The plan of organization and methods and procedures adopted by an entity shall ensure that the use of resources is consistent with laws, regulations and polices. The above described conditions are contrary to the following regulations:

- a. Law No. 81 dated August 30, 1991
- b. Attachment L of the PROMB circular de 54-84 G 54-84

Such regulation establish among other things that:

- a. A financial management system shall provide for an effective control over and accountability for all funds, properties, and an other funds.
- b. A grantee financial management system shall provide for procedures for determining reasonableness, allocability and allowability of costs in accordance with the provisions of state regulations and OMB Circular A-87.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-6 (CONT.)**

**Purchasing and Receiving**

<b>Cause of condition</b>	The Municipality ha not established the necessary procedures to comply with the purchasing and receiving procedures.
<b>Effect of condition</b>	The Municipality did not comply with the regulation mentioned above.
<b>Recommendation</b>	The Municipality should reengineer its purchasing process taking into account the applicable laws. And regulations applicable. As part of the mechanization process, the Municipality should evaluate an accounting system that integrates the purchasing function.
<b>Auditee Response</b>	The mayor instructed the director of finance to enforce the current disbursement procedure immediately to avoid this situation in the future.

**FINDING NUMBER 02-7**

**Revenues / Accounts Receivable**

<b>Condition</b>	The following deficiencies were found in the revenue and accounts receivable area:  <b>a.</b> 3 of 25 taxpayer file did not have evidence of income tax return.  <b>b.</b> 17 of 25 taxpayer file did not oath the volume of Business Tax.
<b>Criteria</b>	The Municipality ' s control over revenues shall ensure that the data obtained from the system be reliable and that adequate controls be in force over the levy and / or collection of taxes and accounts receivable.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-7 (CONT.)**

**Revenues / Accounts Receivable**

**Criteria (Cont.)**

In addition, the Municipality must maintain adequate controls over volume of business taxes receivable and shall establish an effective system of accounts receivable recording.

**Cause of condition**

This situation cause that the data that could be obtained from the system be unreliable and that the Municipality does not have a good control over the levy and / or collection of taxes.

**Effect of condition**

The amount of volume of business tax receivable were not properly documented.

**Recommendation**

The Municipality must establish the necessary procedures to have in place a computerized system to levy the volume of business tax and record accounts receivable and use this data in the collection process.

**Auditee Response**

The mayor give instruction to the municipality collector, that immediately do not process any volume of business return without the documentation required by law.

**FINDING NUMBER 02-8**

**Personnel Files**

**Condition**

My review of twenty (20) personnel files for the year under audit, revealed the following instances where the required documents, were not found:

**Documents**

**Exceptions**

a. Medical history

18

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-8 (CONT.)**

**Personnel Files**

**Documents**

**Exceptions**

b. Employees Application	16
c. Withholding form	19
d. Copy of Social Security	1
e. Health Certification	1
f. Form I -9	2
g. Evaluation form	20
h. Drug free workplace letter	20
i. Oath and notification form	2
j. Evidence of accumulated hours of training	20
k. Governmental ethic law were discussed with the employees	20

In addition, the following deficiencies were found:

- a. There shall be an adequate retribution plan to identify the classification of the vacancies in the Municipality.

**Criteria**

Deviations from these requirements are contrary to Article 12.006 of the Law No. 18 dated August 30, 1991.

The Municipality should provide adequate procedures for determining reasonableness, allocability and allowability of costs in accordance with State regulations and the provisions of OMB Circular A-87.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-8 (CONT.)**

**Personnel Files**

**Criteria (Cont.)**

Furthermore, Attachment B, Section 10 of OMB Circular A-87 establishes that amounts charged to grant programs for personal services will be based on payrolls documented and provided in accordance with generally accepted practices of the State. Payroll must be supported by time and attendance records for individual employees.

The payroll cost is allowable to the extent that compensation for individual employees follows an appointment made in accordance with State laws and regulations.

Furthermore, federal regulations state that financial records, supporting documents statistical records and all other records pertinent to a grant shall be retained for a period of three years, subject to certain qualifications. This retention period starts from the date of the submission of the final expenditure report or from the date of the submission of the annual financial status report.

In addition, the federal government requires compliance with general requirements such as Davis – Bacon act, civil rights, political activity and allowable costs and cost principles.

**Cause of condition**

Carelessness of personnel in charge of maintaining personnel files and lack of knowledge of prescribed regulations.

**Effect of condition**

The Municipality did not comply with the Article 12.006 of the Law No. 81 dated August 30, 1991. In addition, payroll costs incurred not properly supported could be disallowed.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-8 (CONT.)**

**Personnel Files**

**Recommendation**

A comprehensive plan must be developed to ensure that all the personnel files be on hand and complete in order to comply with the prescribed guidelines. Also, further steps should be taken to ascertain that all OCAP reports are prepared and processed immediately. Additionally, further steps should be taken to ensure compliance with federal regulations.

**Auditee Response**

The Mayor give instructions to the personnel director to make the necessary management effort to purge employee record in order to complied with the law and Municipality internal control.

**FINDING NUMBER 02-9**

**Bids**

**Condition**

As part of my examination of the bids procedures of the Municipality, I requested the file and documents for twenty fourth (24) bids granted during the year. The following summarizes the deficiencies found:

- a. 1 of 24 the contract did not provided the income tax retention for professional services. According income tax law.
- b. 2 of 24 the contract did not have the clause that will pay alimony.
- c. 1 of 24 the contract did not provided for the budget account from which the service will be pay.
- d. 1 of 24 the contract did not provided clause for cancel by negligence of the contracting.
- e. 4 of 24 the contract did not include the clause that mentioned the circular letter

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-9 (CONT.)**

- Condition (Cont.)**
- f. 2 of 24 the contract did not include the clause that the maximum hours to be work.
  - g. 5 of 24 the contract did not have hand over after 8 day will be pay the next month.
  - h. 4 of 24 the contract did not have the clause, that the person did not receive payment of other entity.

**Criteria** Those situations are contrary to law No. 81 August 30, 1991, federal regulations and the PROMB circular G 54-84 which require an effective control and accountability of funds. Property, etc. also the PR controller office established the criteria and clause to be included in the all municipalities contracts.

**Cause of condition** The Municipality did not establish the necessary procedures to comply with the bid requirement.

**Effect of condition** The Municipality did not comply with the regulations mentioned above.

**Recommendation** The Municipality must establish the necessary policies and procedures to prevent these situation in the future.

**Auditee Response** The office of municipal secretary was instructed to prepared check list that include all of the clauses necessities in every contract.

**FINDING NUMBER 02 – 10**

**“Liquidación Presupuestaria”**

**Condition** The “Liquidación Presupuestaria” was not properly prepared.

During the performance of my procedures the following exceptions were noted:

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-10 (CONT.)**

**“Liquidación Presupuestaria”**

**Condition (Cont.)**

a. The “ Liquidación Presupuestaria” must by submitted to the office of the Commissioner of Municipal Affairs (OCAM) not later than September 30, of each year, as of the date of this report the municipality have not comply with this requirement

**Effect of condition**

Financial information submitted to “OCAM” donot present fairly the operations of the Municipality.

**Recommendation**

The director of finance should be established the regulation that the “Liquidación Presupuestaria” prepare according to “Reglamento de Normas Basicas” Chapter 2 section 10

**Auditee Response**

The direct of finance are going to send the employee in charge of the “Liquidacion Presupuestaria” to attend seminar conducted to acquire the necessary knowledge to prepare the mentioned report on time and corrected.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDING**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FISCAL YEARS ENDED JUNE 30, 2002**

The Municipality of Quebradillas has been the subject of various audits and program monitoring compliance over the past years. Following is a summary of audit findings for which final determination and/or corrective action are in process. These findings still prevail for the year ended June 30, 2002. This summary included a brief description of the findings and their status. Therefore, findings included in the audit report for the year ended June 30, 2002, encompass unresolved findings mentioned in the audit for the fiscal year ended June 30, 2001, date November 15, 2001.

**FINDING NUMBER 01-1**

**Accounting System**

I noted that the Municipality of Quebradillas is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchased orders and contracts are not adequate, because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

**Status: Still Prevails**

**FINDING NUMBER 01-2**

**Accounting Records**

During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:

- a. The balance of the cash transactions report (From 4A), does not agree with various accounts and their respective bank account's reconciliation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FISCAL YEARS ENDED JUNE 30, 2002**

**FINDING NUMBER 01-2 (CONT.)**

**Accounting Records**

- b. The bank reconciliation for the operating account was not prepared on a timely basis.
- c. The Municipality maintains several cash accounts which are either inactive or have limited activity.
- d. There were various unreconciled material differences between the accounting records of the different funds.
- e. No reconciliation is made general ledger, cash reports, bank reconciliation, and other related subsidiaries and reports. There are material and unreconciled differences between these reports and ledgers.

**Status: Still Prevails**

**FINDING NUMBER 01-3**

**Fixed Assets**

During the audit I noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF QUEBRADILLAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**FINDING NUMBER 02-03(CONT.)**

**Fixed Assets**

- d. There is no supervision process to verify if each department keeps adequate control of the inventory.
4. The Municipality does not maintain a proper record of personal property acquired with Municipal funds.
5. A physical inventory was not taken at year-ends.

**Status: Still Prevails**