

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SABANA GRANDE

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

OFICIO DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2003

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003
(WITH THE ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133)

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Sabana Grande, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Sabana Grande, Puerto Rico (Municipality)**, as of and for the Fiscal Year Ended June 30, 2003, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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**, has not maintained a complete and accurate inventory of property, plant and equipment purchased in prior years to June 30, 2003. We were, therefore, unable to apply generally accepted auditing procedures to an examination of the costs of assets included in the General Fixed Assets Account Group.

As explained in Note 12, the **Municipality** is in process to perform a study of the estimated landfill closing and postclosing costs to be recognized in the general-purpose combined financial statements, as required by the GASB No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*". Accordingly, no provision for liability has been made in the financial statements.

In our opinion, except for the effect of such adjustment, if any, as might have determined to be necessary had we been able to audit the fixed assets of the general fixed assets account group and for no provision for liability of landfill closing and postclosing costs, as explained in above paragraphs, the general-purpose combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2003, and the results of operations and changes in the fund balances for the fiscal 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 a report dated November 12, 2003 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

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The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

CPA DIAZ PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico
November 12, 2003



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
ASSETS AND OTHER DEBITS:							
Cash (Note 1 E)	\$ 887,542	\$ 3,826,308	\$ 3,577,734	\$ -	\$ -	\$ -	\$ 8,291,584
Cash with Fiscal Agent (Note 1E)	21	160,650	1,377,264	738,378	-	-	2,276,313
Receivables:							
Property Taxes (Note 8)	-	-	-	9,448	-	-	9,448
Volume of Business Tax (Note 9)	-	-	-	-	-	-	-
Federal Grants (Note 10)	-	210,284	-	-	-	-	210,284
Others Funds (Note 3)	1,091,443	183,670	422,763	-	-	-	1,697,876
Others	692,715	200,464	-	-	-	-	893,179
Property, Plant and Equipment (Note 5)	-	-	-	-	20,990,989	-	20,990,989
Amount Available in Debt Service Fund (Note 7) .	-	-	-	-	-	517,977	517,977
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6)	-	-	-	-	-	6,517,023	6,517,023
Property Taxes Advance (Note 6)	-	-	-	-	-	815,499	815,499
Claims & Judgments (Note 13)	-	-	-	-	-	523,000	523,000
Vested Compensated Absences	-	-	-	-	-	1,288,074	1,288,074
(Notes 1 I and 6)	-	-	-	-	-	-	-
TOTAL ASSETS AND OTHER DEBITS	\$ 2,671,721	\$ 4,581,376	\$ 5,377,761	\$ 747,826	\$20,990,989	\$ 9,661,573	\$44,031,246

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

**COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities	\$ 341,208	\$ 204,358	\$ -	\$ 151,000	\$ -	\$ -	\$ 696,566
Interest Payable	-	-	-	77,125	-	-	77,125
Due to:							
Government Units (Note 4)	371,111	-	-	-	-	-	371,111
Other Funds (Note 3)	606,433	1,089,719	-	1,724	-	-	1,697,876
Deferred Revenues:							
Volume of Business Tax (Note 9)	850,982	-	-	-	-	-	850,982
Federal Grants (Note 10)	-	822,898	19,350	-	-	-	842,248
Local Grants (Note 10)	204,751	-	-	-	-	-	204,751
Long-Term Debts:							
General Obligation Bonds (Note 6)	-	-	-	-	-	6,530,000	6,530,000
Special Obligation Bonds (Note 6)	-	-	-	-	-	505,000	505,000
Property Taxes Advance (Note 6)	-	-	-	-	-	815,499	815,499
Claims & Judgments (Note 13)	-	-	-	-	-	523,000	523,000
Vested Compensated Absences (Note 11 and 6)	-	-	-	-	-	1,288,074	1,288,074
TOTAL LIABILITIES	2,374,485	2,116,975	19,350	229,849	-	9,661,573	14,553,232

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

**COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY:							
Investment in Property, Plant and Equipment (Note 5).....	\$ -	\$ -	\$ -	\$ -	\$20,990,989	\$ -	\$20,990,989
Fund Balance:							
Reserved for Encumbrances (Note 1 D).....	331,982	-	-	-	-	-	331,982
Unreserved:							
Designated for Debt Service.....	-	-	-	517,977	-	-	517,977
Designated for Subsequent Expenditures	21	2,464,401	5,358,411	-	-	-	7,822,833
Undesignated (Deficit).....	(34,767)	-	-	-	-	-	(34,767)
TOTAL FUND EQUITY	297,236	2,464,401	5,358,511	517,977	20,990,989	-	29,629,014
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,671,721	\$ 4,581,376	\$ 5,377,761	\$ 747,826	\$20,990,989	\$ 9,661,573	\$44,031,246

The accompanying notes to general-purpose financial statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8).....	\$ 1,641,288	\$ -	\$ -	\$ 283,348	\$ 1,924,636
Volume of Business Taxes (Note 9)	889,034	-	-	-	889,034
Federal Assistance (Note 10)	-	6,634,584	126,133	-	6,760,717
Intergovernmental (Note 10).....	4,044,218	4,551,903	3,671,362	-	12,267,483
Rent.....	580,748	-	-	-	580,748
Miscellaneous	958,870	548,815	-	-	1,507,685
TOTAL REVENUES	8,114,158	11,735,302	3,797,495	283,348	23,930,303
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	1,553,530	-	-	-	1,553,530
General Government.....	2,008,496	558,334	-	-	2,566,830
Public Safety	318,469	4,108	-	-	322,577
Public Works	1,878,356	-	-	-	1,878,356
Culture and Recreation	514,287	-	-	-	514,287
Sanitation	203,053	-	-	-	203,053
Human Services and Welfare	1,141,234	10,153,879	-	-	11,295,113
Urban Development	-	-	1,221,290	-	1,221,290
Capital Outlays.....	-	504,589	-	-	504,589
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	383,000	383,000
Interest Payment.....	-	-	-	352,581	352,581
TOTAL EXPENDITURES	7,617,425	11,220,910	1,221,290	735,581	20,795,206
EXCESS OF REVENUES Over (Under) Expenditures.....	496,733	514,392	2,576,205	(452,233)	3,135,097

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Proceed of Note	\$ 1,305,000	\$ -	\$ -	\$ -	\$ 1,305,000
Operating Transfer In	-	-	1,492,062	223,150	1,715,212
Operating Transfer Out	<u>(1,528,150)</u>	<u>(187,062)</u>	<u>-</u>	<u>-</u>	<u>(1,715,212)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(223,150)</u>	<u>(187,062)</u>	<u>1,492,062</u>	<u>223,150</u>	<u>1,305,000</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	273,583	327,330	4,068,267	(229,083)	4,440,097
Fund Balances, as Restated at Beginning of Year (Note 14)	<u>23,653</u>	<u>2,137,071</u>	<u>1,290,144</u>	<u>747,060</u>	<u>4,197,928</u>
FUND BALANCES AT END OF YEAR	<u>\$ 297,236</u>	<u>\$ 2,464,401</u>	<u>\$ 5,358,411</u>	<u>\$ 517,977</u>	<u>\$ 8,638,025</u>

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes.....	\$ 1,735,587	\$ 1,641,288	(\$ 94,299)	\$ 425,276	\$ 283,348	(\$ 141,928)
Volume of Business Taxes	1,000,000	889,034	(110,966)	-	-	-
Intergovernmental	4,114,108	4,044,218	(69,890)	-	-	-
Rent.....	340,346	580,748	240,402	-	-	-
Miscellaneous	<u>973,338</u>	<u>470,906</u>	<u>(502,432)</u>	-	-	-
TOTAL REVENUES.....	<u>8,163,379</u>	<u>7,626,194</u>	<u>(537,185)</u>	<u>425,276</u>	<u>283,348</u>	<u>(141,928)</u>
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	1,766,797	1,760,488	6,309	-	-	-
General Government:						
Finance	1,554,137	1,519,222	34,915	-	-	-
Personnel.....	254,294	252,033	2,261	-	-	-
Insurance	210,270	209,788	482	-	-	-
Public Safety	319,544	318,469	1,075	-	-	-
Public Works	1,965,816	1,848,973	116,843	-	-	-
Culture and Recreation	520,239	514,887	5,352	-	-	-
Sanitation	204,148	203,053	1,095	-	-	-
Human Services and Welfare	1,144,834	1,144,328	506	-	-	-
Capital Outlays.....	150	-	150	-	-	-
Debt Services.....	-	-	-	425,276	735,581	(310,305)
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>7,940,229</u>	<u>7,771,241</u>	<u>168,988</u>	<u>425,276</u>	<u>735,581</u>	<u>(310,305)</u>
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances.....	<u>223,150</u>	<u>(145,047)</u>	<u>(368,197)</u>	-	<u>(452,233)</u>	<u>(452,233)</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
ENCUMBRANCES AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL – GENERAL AND DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer In	\$ -	\$ -	\$ -	\$ -	\$ 223,150	\$ 223,150
Operating Transfer Out	<u>(223,150)</u>	<u>(223,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financial Sources Over (Under) Expenditures and Other Uses.....	<u>\$ -</u>	<u>(368,197)</u>	<u>(\$ 368,197)</u>	<u>\$ -</u>	<u>(229,083)</u>	<u>(\$ 229,083)</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Proceed of Bonds		1,305,000			-	
Net Change in Encumbrance.....		206,985			-	
GAAP Adjustment to Revenues.....		487,964			-	
Accrual Liability for Certain Debts Not Recognized in Budget.....		(53,169)			-	
Net Changes in Nonbudgeted Items.....		(1,305,000)			-	
Fund Balances, as Restated at Beginning of Year (Note 14)		<u>23,653</u>			<u>747,060</u>	
FUND BALANCE AT END OF YEAR		<u>\$ 297,236</u>			<u>\$ 517,977</u>	

The accompanying notes to general-purpose financial statements are an integral part of this statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Sabana Grande, Puerto Rico (Municipality)** was founded in the year 1813, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 legislators also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services.

The accounting policies of the **Municipality** conform to accounting principles general accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

A. Financial Reporting Entity

The general-purpose combined financial statements of the **Municipality** have been prepared in accordance with accounting principles general accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is a standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

The general-purpose financial statements present the financial position of the various fund types and accounts groups and the results of operations of the various fund types of the **Municipality**. This includes the organizations units governed by the Executive Officers and members of the Municipal Legislature of the **Municipality**. In evaluating the **Municipality** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of **GASB Number 14**.

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, fiscal dependency of the potential component units 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 if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

The relative importance of each criteria must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Municipality** indicates that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions are required to be included in the reporting entity.

B. Basis of Presentation

The accounts of the **Municipality** are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set off self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds and account groups are summarized by type in the accompanying general-purpose financial statements. The **Municipality** records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

Amounts in the "Totals Memorandum Only" column in the combined financial statements represent a summation of the combined financial statements line items of the fund types and account groups, and are presented for the analytical purposes only. The summation include fund types and account groups that use different basis of accounting includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Totals Memorandum Only" column are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the **Municipality**.

GOVERNMENTAL FUNDS

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

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

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

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interests.

Capital Projects Fund – This is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund). Completed assets if a stewardship nature is transferred to the General Fixed Assets Account Group.

ACCOUNT GROUPS

Account groups is not fund; it does not reflect available financial resources and related liabilities, but is accounting record for the general long-term obligations. Account groups are used to establish accounting control and accountability for the **Municipality's** general fixed assets and the unmatured principal of its general long-term debts and other long-term obligations. The following is a description of the Account Group of the **Municipality**:

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the **Municipality**. General Fixed Assets are recorded as expenditures of the various funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group.

General Long-Term Debt Account Group – This account group is used to account for all long-term debt including bonds, notes and other long-term liabilities of the governmental fund type of the **Municipality**.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are

recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, 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 years to which they apply.

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, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the **Municipality**; therefore, revenues are recognized based upon the expenditures recorded. For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

For the third type, revenues are virtually unrestricted as to purpose of expenditure and nearly irrevocable or revocable only for failure to comply with the prescribed requirements, such as equal employment opportunity provisions. These resources are reflected as revenues at the time of receipt or earlier if they meet the "available" criteria.

Property taxes are recognized as revenues when collected by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico, even though a portion of the taxes may be collected in subsequent years. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when collected, because they are generally not measurable until actually received.

Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred. Exceptions to this general rule include: (1) vacation, sick leave, disallowance, and litigation are recorded in the General Long-Term Debt Account Group; (2) expenditures and related liabilities for principal and interest on long-term obligations, which are recorded when due; (3) landfill obligation is included in the General Long-Term Debt Account Group since it will not be funded with available expendable financial resources.

D. Budgetary Accounting

The **Municipality's** Annual Budget is prepared on the budgetary basis of accounting, represents departmental appropriations recommended by the Mayor, and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general-purpose financial statements:

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.

2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP (See Note 8).
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary basis.

The special funds of the Special Revenue Fund have not been included in the budget and actual comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget and actual for such programs.

E. Cash and Investment

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

E. Cash and Investment (continuation)

Cash balance recognized in the Debt Service Fund is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the **Municipality's** bonds and notes issued in accordance with the law.

F. Receivable

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

G. Inventories

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the general-purpose financial statements.

H. General Fixed Assets

The General Fixed Assets Account Group reflects the cost of fixed assets of a stewardship nature (certain land, buildings, certain improvements other than building, furniture and fixtures, equipment and motor vehicles acquired or constructed by the **Municipality**). Public domain (infrastructure) fixed assets consisting of roads, bridges, underground water and sewer facilities and certain other property are recorded as expenditures and are not capitalized in the General Fixed Assets Account Group. Donated fixed assets are valued at their estimated fair value on the date donated. No depreciation has been provided and the interest on financing during the construction period will not be capitalized in the General Fixed Assets Account Group.

I. Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon

retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. 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; and (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. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

J. Insurance

The **Municipality** has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the **Municipality** are covered under various surety bonds.

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. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy send to the **Municipality**.

K. Interfund Transactions

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

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" 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 SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

L. 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:

Encumbrance – 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.

M. 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.

N. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues during the reporting period. Actual result count differs from those estimates.

NOTE 2 CASH AND INVESTMENTS

The Municipality follows the practice of pooling cash of all funds, except from restricted funds held by the Municipal Revenue Collection Center for repayment of principal and interests on general long-term obligations, and federal financial awards. Investments consist of certificates of deposit. The Municipality's cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

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

ISSUED BY	CERTIFICATE OF DEPOSIT NUMBER	PRINCIPAL AMOUNT	INTEREST RATE	EXPIRATION DATE
Popular Bank of PR	111000007	\$3,500,000	1.60%	03/22/04
Western Bank	2900710028	400,000	1.40%	11/21/03
Western Bank	2900710033	<u>375,000</u>	1.40%	11/18/03
TOTAL		<u>\$4,275,000</u>		

NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2003 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Interfund Advances	\$1,089,719	\$ 606,433
Cash System in Current Account.....	-	-
Interest Receivable from Debt Service Fund.....	1,724	-
Special Revenue:		
Interfund Advances	-	1,089,719
Cash System in Current Account.....	183,670	-
Capital Project:		
Cash System in Current Account.....	422,763	-
Debt Service:		
Interest Payable to General Fund	-	<u>1,724</u>
TOTAL.....	<u>\$1,697,876</u>	<u>\$1,697,876</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2003, balance due to other governmental units of the General Fund for services rendered to the **Municipality**, consists of the following:

	AMOUNT
P. R. Department of Labor and Human Resources	\$143,315
Water Company	39,470
Puerto Rico Electric Power Authority	165,588
Retirement System Administration	12,918
AEELA	6,230
General Service Administration	3,590
TOTAL	<u>\$371,111</u>

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment follows:

DESCRIPTION	BALANCE JULY 1, 2002	ADDITIONS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2003
Land	\$ 1,533,811	\$ 1,178,343	\$ -	\$ 2,712,154
Building and Improvements	12,910,588	432,718	-	13,343,306
Machinery and Equipment	4,864,182	322,467	251,120	4,935,529
TOTAL	<u>\$19,308,581</u>	<u>\$ 1,933,528</u>	<u>\$ 251,120</u>	<u>\$20,990,989</u>

NOTE 6 GENERAL LONG-TERMS DEBTS

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The principal long-term obligations of the **Municipality** are general obligations bonds and notes payable issued to finance the construction and improvements of public facilities. The **Municipality's** obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 7). General obligations bonds and notes payable as of June 30, 2003, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
General Obligations Bonds:	
\$1,305,000, Series 2003, payable in annual installments ranging from \$20,000 to \$100,000, excluding interests at 6.50%, through July 1, 2027	\$ 1,285,000
\$735,000 Series 2001, payable in annual installments ranging from \$15,000 to \$75,000, excluding interests at 8.00%, through July 1, 2020	685,000
\$1,760,000 Series 2001, payable in annual installments ranging from \$25,000 to \$160,000, excluding interests at 8.00%, through July 1, 2025	1,680,000
\$755,000 Series 2001, payable in annual installments ranging from \$15,000 to \$65,000, excluding interests at 8.00%, through July 1, 2025	725,000
\$105,000, Series 2000, payable in annual installments ranging from \$5,000 to \$15,000, excluding interests at 8.00%, through January 1, 2009	70,000
\$60,000, Series 2000, payable in annual installments ranging from \$1,000 to \$6,000, excluding interests from 6.41% to 6.56%, through January 1, 2024	56,000
\$600,000, Series 2000, payable in annual installments ranging from \$9,000 to \$29,000, excluding interests at 4.50%, through January 1, 2027 (Water & Waste Disposal Loans & Grants)	445,000
\$140,000, Series 1999, payable in annual installments ranging from \$5,000 to \$10,000, excluding interests at 8.00%, through July 1, 2023	115,000
\$230,000, Series 1998, payable in annual installments ranging from \$5,000 to \$20,000, excluding interests at 8.00%, through July 1, 2022	200,000
\$121,000, Series 1998, payable in annual installments ranging from \$3,000 to \$8,000, excluding interests at 4.50%, through July 1, 2003	112,000
\$310,000, Series 1997, payable in annual installments ranging from \$5,000 to \$30,000, excluding interests from 4.70% to 6.63%, through July 1, 2002	275,000
\$222,000 Series 1996, actually in process of disbursement, interests at 4.50% (Water & Waste Disposal Loans & Grants)	202,000

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NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6	GENERAL LONG-TERM DEBTS (continuation)	AMOUNT
	DESCRIPTION	
	General Obligations Bonds: (continuation)	
	\$350,000 Series 1992, payable in annual installments; actually in process of disbursement; interests at 5.25% (Community Facilities Loan).....	\$ 290,000
	\$350,000 Series 1991, payable in annual installments ranging from \$13,000 to \$31,000, excluding interests at 5.25%, through January 1, 2015; (Community Facilities Loan).....	277,000
	\$361,000, Series 1984, payable in annual installments ranging from \$5,000 to \$26,000, excluding interests at 5.00%, through January 1, 2008.....	113,000
	Total General Obligations – Bonds.....	<u>6,530,000</u>
	Notes Payable:	
	\$475,000, Series 2001, payable in annual installments ranging from \$55,000 to \$90,000, excluding interests at 8.00%, through July 1, 2007.....	\$ 305,000
	\$125,000, Series 2000, payable in annual installments ranging from \$20,000 to \$30,000, excluding interests at 7.50%, through July 1, 2004.....	30,000
	\$114,000, Series 1998, payable in quarterly installments ranging from \$14,000 to \$19,000, excluding interests at 4.75%, through January 1, 2005 (Community Facilities Loan).....	37,000
	\$200,000, Series 1988, payable in quarterly installments of \$2,500, excluding interests at 8.00%, through July 1, 2007.....	40,000
	\$880,000, Series 1986, payable in quarterly installments ranging from \$31,000 to \$44,000, excluding variable interests up to 8.50%, through July 1, 2006.....	93,000
	Total Notes Payable.....	<u>505,000</u>
	Total General Obligations Bonds and Notes.....	<u>\$ 7,035,000</u>

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2003, are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total Payment
2004	\$ 345,000	\$ 403,715	\$ 748,715
2005	335,000	387,478	722,478
2006	335,000	370,969	705,969
2007	330,000	354,348	684,348
2008	250,000	338,341	588,341
2009-2013	1,254,000	1,492,444	2,746,444
2014-2018	1,579,000	1,090,666	2,669,666
2019-2023	1,696,000	592,647	2,288,647
2024-2027	911,000	116,994	1,027,994
TOTAL	<u>\$ 7,035,000</u>	<u>\$ 5,147,622</u>	<u>\$12,182,622</u>

B. OTHER LONG - TERM DEBTS

The following is a detail of Other Long-Term Debts at year-end:

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
Property Tax Advance – MRCC.....	\$ 815,499	\$ -	\$ -	\$ 815,499
Claims & Judgments.....	-	523,000	-	523,000
Compensated Absences.....	1,201,910	86,164	-	1,288,074
TOTAL.....	<u>\$ 2,017,409</u>	<u>\$ 609,164</u>	<u>\$ -</u>	<u>\$ 2,626,573</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term obligations for the Fiscal Year Ended June 30, 2003:

DESCRIPTION	BALANCE JULY 1, 2002	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2003
General.....	\$ 5,401,000	\$ 1,305,000	\$ 176,000	\$ 6,530,000
Special.....	712,000	-	207,000	505,000
Others.....	2,017,409	609,164	-	2,626,573
TOTAL.....	<u>\$ 8,130,409</u>	<u>\$ 1,914,164</u>	<u>\$ 383,000</u>	<u>\$ 9,661,573</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 DEBT RETIREMENT

Revenues of the Debt Service Fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the **Municipality** (See Note 8).

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the **Municipality** (See Note 6). Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

NOTE 8 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution. The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.25% and 5.25%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the **Municipality** of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7).

The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

The **Municipality** grants a complete exemption from personal property taxes up to an assessment value of \$50,000. The Municipal Revenue Collection Center advances to the **Municipality**, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the Municipal Revenue Collection Center from taxpayers. The Municipal Revenue Collection Center periodically informs to the **Municipality** the amounts collected from taxpayers and applied to outstanding advances.

The **Municipality** records as revenue in the general fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the general fund and in the General Long-Term Debt Account Group as an increase in related debt. Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Account Group, expenditures in the General Fund and recognized as revenue in accordance with GAAP.

The liquidation of Property Taxes of the current fiscal year is preliminary as stated by Municipal Revenue Collection Center. During the fiscal year, the **Municipality** has a receivable of \$9,448 recognized in Debt Service Fund according to measurement recognition focus.

NOTE 9 VOLUME OF BUSINESS TAX

The volume of business 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 Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 20 of each year. The tax rates are as follows:

- a. 1.50% for financial institutions and savings and loan associations.
- b. 0.50% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration, the taxpayer is granted a 5% of discount. Also, Child and Elderly Care Institutions are granted with a 50% discount of tax levied. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

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NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the quasi-public corporation, the Puerto Rico Electric Power Authority, and federal financial assistance received from federal government.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS 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.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS 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.

During the fiscal year, the Municipality adopted the requirements of GASB Number 25 for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws. Under this plan, except for the Head Start Programs' employees, the Municipality's employees and employer portions are contributed, for which, the employee amount is withheld from salaries.

Under the plan, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to accept before April 1, 1999 to contribute 5.775% for the first \$6,600 of salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of all salary. After such date, contribute 8.275% of their salaries. This is the only choice available to Mayor. The Municipality contributes to the system 9.275% of the participating employee's salaries.

Law Number 305 of September 24, 1999, amends the Act Number 447, that establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program (a defined contribution plan). Employees in the savings program may now contribute from a minimum of 8.275% up to a maximum of 10% of their monthly salary, and will invested in an account which will either: (a) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (b) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (c) earn a combination of both alternatives. If at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

All employees that do not elect to transfer for the new program, and who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

YEARS OF SERVICE	PARTICIPANT'S AGE	PENSION BENEFITS
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

The pension benefit for participants who retire with less than 30 years of service is computed at the rate of 1½% of their average compensation of each year of credit service for the remaining years. The System also provides for death and disability benefits and the assets of the System pertaining to the participant employees.

A variety of significant actuarial assumptions are used to determine the standard measure of the pension benefit obligation and these assumptions are summarized below:

- a. The present value of the future pension payments was computed by using a discount of 9%.
- b. Future pension payments reflect an assumption of a 6% salary increase.

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NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date. 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 2002 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 total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2003 was approximately **\$157,906**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the Fiscal Year Ended June 30, 2003.

Also, the Head Start Program's employees are covered by a Defined Contribution Plan adopted on February 1, 2001. Substantially all employees are eligible for the Plan on or after the date in which the employee completes three months of continued service. Participants can make a voluntary contribution up to \$55.00 per month of its gross compensation, as defined in the Plan; not to exceed the limit established by law. The Head Start Program (Sponsor) contributes \$25.00 per month per employee. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1165 (a) and (e) of the Puerto Rico Internal Revenue Code of 1994 (PRIIRC), as amended. Participants are 100% vested on both participants and Sponsor's contributions and earnings since being eligible for participation in the Plan.

Upon termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his account or some other annuity alternative benefits. The Plan's Assets are being managed by Cooperativa de Seguros de Vida de Puerto Rico (COSVI) under an investment contract. Such assets are being maintained in COSVI's general account and are credited with estimated earnings on the underlying investments through the year, which are adjusted retroactively after determining actual yield on investments. The estimated interest rate on earnings was 7.0%. Assets are also charged for Plan's withdrawals and administration expenses. The investment contract, included on Net Assets Available for Benefits, approximates fair value. The contract has not defined maturity and, accordingly, the fair value is the amount payable on demand.

Although the Sponsor has not expressed any intention to do so, it has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event of the termination of the Plan, reduction or suspension, the employer shall make no further contributions and the accounts of all participants shall remain fully vested and non-forfeitable.

NOTE 12 ESTIMATED MUNICIPAL SOLID WASTE LANDFILL CLOSING COSTS

According to the Environmental Protection Agency's (EPA) regulations, the **Municipality** must follow certain closure functions and postclosure monitoring and maintenance procedures. In addition, the **Municipality** has adopted the **GASB Number 18** in order to comply with these regulations. Actually, the **Municipality** has one inactive landfill.

As of June 30, 2003, the **Municipality** is in process to perform a study of the estimated landfill closing and postclosing costs to be recognized in the financial statements as required by the new accounting policy.

NOTE 13 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The **Municipality** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Municipality's** activities. The legal counsel of the **Municipality** has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome, with the exception of one uninsured lawsuit.

In this case, one (1) plaintiff (former employee) filed a civil rights complaint based on allegations of political harassment and discrimination [Civil No. 01-1244 (JAF)] in the United States District Court for the District of Puerto Rico. Recently, the jury outcome was unfavorable to the **Municipality** for the amount of \$523,000 included in the financial statements in the General Long-Term Account Group. Management is vigorously defending the claim and made an appeal to the First Circuit of Boston.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 13 CONTINGENCIES (continuation)

In addition, the **Municipality** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available can not determine the final outcome of these claims. The financial statements do not include adjustment, if any, that could result from the others resolutions of legal proceeding. However, it has been the **Municipality's** experience that such actions are settled for amounts substantially less than the claimed amounts.

B. FEDERAL GRANTS

In the normal course of operations, the **Municipality** receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 14 BEGINNING FUND BALANCES RESTATEMENT

Beginning Fund Balances for Debt Service Fund have been restated by accounting adjustments that affect the Fund Equity of this Governmental Fund, as follows:

Beginning Balance at July 1, 2002.....	\$1,018,574
Change in Accounting Principles	(216,535)
Final Liquidation of Fiscal Years 2001-2002.....	<u>(54,979)</u>
Beginning Balance, as Restated, July 1, 2002.....	<u>\$ 747,060</u>

NOTE 15 GASB STATEMENTS NUMBERS 34 (AS AMENDED), 37, 38 AND 39

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The objective of this Statement is to enhance the understandability and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The minimum requirements for Basic Financial Statements and Required Supplementary Information (RSI) are:

- A. Management's Discussion and Analysis (MD&A) – a component of RSI, should introduce the basic financial statements and provide an objective and easily readable analytical of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss

the current-year positive and negative results in comparison with the prior year, with emphasis on the current year.

B. Basic Financial Statements – should include:

- 1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:
 - a. Statement of Net Assets
 - b. Statement of Activities
- 2. Fund Financial Statements – Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.
- 3. Notes to the Financial Statements – One set of notes for both financial statements.

- C. Required Supplementary Information other than MD&A. Except for MD&A, required supplementary information, including the required budgetary comparison information, should be presented immediately following the notes to the financial statements.

GASB No. 34 will begin to take effect for the **Municipality** in fiscal year beginning after June 15, 2002. Earlier application is encouraged.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. Retroactive reporting is required four (4) year after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 GASB STATEMENTS NUMBERS 34 (AS AMENDED), 37, 38 AND 39 (continuation)

On May 2002, GASB No. 39 was issued that amend GASB 14 by established additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement is effective for financial statements for periods beginning after June 15, 2003. Earlier application is encouraged.

END OF NOTES

PART II

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND REPORTS REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND OMB CIRCULAR A-133**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Department of Education:			
Child and Adult Care Food Program.....	10.558	N/AV	\$ 262,921
Direct Program:			
Water and Waste Disposal Loans and Grants.....	10.770		<u>126,133</u>
Total U.S. Department of Agriculture.....			<u>389,054</u>
U.S. Department of Housing and Urban Development:			
Pass-Through State – Office of Commissioner Of Municipal Affairs:			
State Block Grant Program (SBGP)	14.228	02-FD-55 00-FD-55 99-FD-55 98-FD-55 97-FD-55 96-FD-55 95-FD-55 94-AF-FD-55	<u>487,797</u>
Direct Program:			
Section 8 Housing Choice Voucher Program	14.871		<u>678,323</u>
Total U.S. Department of Housing and Urban Development ...			<u>1,166,120</u>
U.S. Department of Justice:			
Direct Program:			
Edward Byrne Memorial State Program	16.580		50,280
Local Law Enforcement Block Grant	16.592		<u>4,107</u>
Total U.S. Department of Justice.....			<u>54,387</u>
U.S. Federal Emergency Management Administration (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant.....	83.544	1247DR-PR-121	<u>16,792</u>
Subtotal Expenditures of Federal Awards (Balance Carry Forward).....			<u>\$1,626,353</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Subtotal Expenditures of Federal Awards (Balance Brought Forward)			<u>\$1,626,353</u>
U.S. Department of Health and Human Services:			
Pass-Through Office of Governor – Elderly Office:			
Special Program for Aging, Title III, Part B.....	93.044	NAV	65,236
Pass-Through Administration of Children and Families:			
Child Care and Development Block Grant	93.575	CC-92-502-95/98-B CC-92-502-96/109	251,313
Head Start Program.....	93.600	NAV	4,293,066
Family Violence Prevention and Services	93.592		59,544
Social Services Block Grant	93.667		48,567
Direct Program:			
Early Head Start	93.600		<u>416,638</u>
Total U. S. Department of Health and Human Services.....			<u>5,134,364</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS.....			<u>\$6,760,717</u>

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral of this Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the **Municipality of Sabana Grande, Puerto Rico**. 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*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The **Municipality** reporting entity is defined in Note (1) (A) to the general-purpose financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed through other government agencies are included on the Schedule.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The accompanying Schedule of Expenditures of Federal Awards is prepared from **Municipality's** accounting records and is not intended to present financial position or the results of operations.
- B. The financial transactions are recorded by the **Municipality** in accordance with the terms and conditions of the grants, which are consistent with generally accepted accounting principles.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 PASS-THROUGH GRANTOR'S NUMBER

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

NOTE 5 RELATIONSHIP TO GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Change in Fund Balance – All Governmental Fund Types as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$ 6,634,584	\$ 126,133	\$ 6,760,717
State & Municipal Expenditures	<u>4,586,326</u>	<u>1,095,157</u>	<u>5,681,483</u>
TOTAL EXPENDITURES	<u>\$11,220,910</u>	<u>\$ 1,221,290</u>	<u>\$12,442,200</u>

NOTE 6 LOANS OUTSTANDING

The **Municipality of Sabana Grande, Puerto Rico** had the following outstanding balances at June 30, 2003 for the Community Facilities Loans, and Water and Waste Disposal Loans and Grants Programs. For these loans the grantor does not impose continuing compliance requirements, as described on the OMB Circular A-133. Therefore, the prior year balances are not considered expenditures on the Schedule of Expenditures of Federal Awards. The amount presented in the Schedule, represent federal expenditures according to modified accrual basis of accounting (see Note 2). The loans outstanding balances were included in the **Municipality's** General Long-Term Account Group (see Note 6 of the Notes to General-Purposes Financial Statements).

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 LOANS OUTSTANDING (continuation)

Program Title	Federal CFDA Number	Amount Outstanding
Community Facilities Loans.....	10.766	\$604,000
Water and Waste Disposal Loans and Grants	10.770	\$647,000

NOTE 7 MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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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
Members of the Municipal Legislature
Municipality of Sabana Grande, Puerto Rico**

We have audited the financial statements of **Municipality of Sabana Grande, Puerto Rico (Municipality)** as of and for the Fiscal Year Ended June 30, 2003, and have issued our report thereon dated November 12, 2003, which was qualified because we been able to audit the fixed assets of the General Fixed Assets Account Group and for no provision for liability of landfill closing and postclosing costs. Except as discussed in the preceding sentence, 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's** 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 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's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider being reportable condition. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 03-II-01.

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

Page 2

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 all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is a material weakness.

This report is intended for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz PSC

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Certified Public Accountants
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico
November 12, 2003





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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Sabana Grande, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Sabana Grande, Puerto Rico (Municipality)** 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 Fiscal Year Ended June 30, 2003. The **Municipality's** 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's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

In our opinion, the **Municipality** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the Fiscal Year Ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-02 through 03-III-04.

Internal Control Over Compliance

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

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

Page 2

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 03-III-01 through 03-III-03.

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

This report is intended for the information and use of the management, Office of the Commissioner of Municipal Affairs, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CPA Diaz PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants
License Number 12, expires on December 1, 2004

Caguas, Puerto Rico
November 12, 2003



PART III
FINDINGS AND QUESTIONED COSTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

- Type of auditors' report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Internal control over financial reporting:
- Reportable condition(s) identified? Yes None Reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

- Internal control over major programs:
- Reportable condition(s) identified? Yes None Reported
 - Material weakness (es) identified? Yes No
- Type of auditors' report issued on compliance for Major Programs: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion
- Any audit finding disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? Yes No

Identification of Major Programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
14.871	Section 8 Housing Choice Voucher Program
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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING	NUMBER 03-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property record and reports we noted the following deficiencies; (1) Construction in Progress accounted as part of Property, Plant and Equipment account balances were not properly valued; (2) there are no adequate internal control procedures to assure the proper valuation and timely recognition of real estate inventory. <i>(This is a prior year finding.)</i>
CRITERIA	Article 10.002 of State Act Number 81 of August 30, 1991 states that Municipality should maintain updated property accounting records.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement.
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-01
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/ COST PRINCIPLES
CONDITION	It was noted in our test of Municipality's internal control over disbursements process, that supporting documents (invoices) related to eight (8) checks issued were not stamped as paid.
CRITERIA	Code of Federal Regulations, Subpart C, CFR 24 Section 85.20 (b) (3) (OMB Common Rule) requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
CAUSE	There are no adequate internal control procedures implemented to assure this compliance.
EFFECT	Liabilities could be paid twice by the Municipality , an unallowable cost.
RECOMMENDATION	Municipality should stamp paid all disbursement supporting documents in order to assure compliance with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-02
FEDERAL PROGRAM	HEAD START PROGRAM (CFDA NO. 93.600) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS-THROUGH STATE – ADMINISTRATION OF CHILDREN AND FAMILIES
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS BACON
CONDITION	Municipality did not perform the required procedures to ensure that contractors paid prevailing wages according to the Department of Labor rates as established by the Davis-Bacon Act.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). The procedures establish that the Municipality must interview the employees at the beginning, at a middle stage and at the end of the project. Also the Municipality should verify if the contractor is paying the prevailing wages according to the Department of Labor.
CAUSE	Municipality's Head Start Program is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
EFFECT	Municipality did not perform the required procedures for the Head Start Program to ensure contractors and subcontractors compliance with the Act.
RECOMMENDATION	We recommend the Head Start Program's management to perform the required procedures that includes obtaining prevailing wage rates from the Department of Labor and comparing it with the payroll of the contractor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, and to perform interviews to contractor's and subcontractor's laborers accordingly to the established requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-03
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant Files Test we noted that two (2) participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart F, Section 5.617 (b) states that as a condition of admission to, or continued occupancy of, any assisted unit, the Municipality shall require the family head and other such family members as it designated, on 24 CFR, Subpart B, Section 5.230 (a), to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the Municipality and to HUD such information as the Municipality and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
CAUSE	Municipality does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition, the consent form may authorize the collection of other information from applicants and participants to determine eligibility or level of benefits.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart F, Section 5.617(b); Subpart B, Section 5.230(a); and Subpart K, Section 982.516 (g).
RECOMMENDATION	We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING	NUMBER 03-III-04
FEDERAL PROGRAM	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our verification of units with failed Housing Quality Standards inspections, we noticed that the Municipality did not establish the correction period in the document submitted to the person responsible for the repairs in one (1) participant's file. Also, we noticed that in two (2) participant's files there was no evidence of a unit inspection report or other verification documenting that any PHA-required repairs were completed.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 stated that the Municipality must not make any housing assistance payments for a dwelling unit that fails to meet the Housing Quality Standards, unless the responsible person (owner and/or participant) corrects the defect within the period specified by the Municipality , and the Municipality verifies the correction.
CAUSE	Municipality did not specify the time frames for the correction of the deficiencies. Also, Municipality did not verify the correction of the Housing Quality Standards deficiencies; therefore, the Municipality failed to take prompt and vigorous action to enforce the owner and/or participant's obligations.
EFFECT	Municipality is not in compliance with 24 CFR, Subpart I, Section 982.404.
RECOMMENDATION	We recommend management to implement internal control procedures to establish a correction time period, to assure that the unit's Housing Quality Standards deficiencies were corrected during the specified period established by the federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2002

Finding Number 02-III-02 Procurement Standards – Owner's contract.

CFDA Number 14.871

Questioned Cost None

Auditee Comments System and procedures are corrected

Finding Number 02-III-04 Special Tests and Provisions – Requiring Centers' licensing.

CFDA Number 93.600

Questioned Cost None

Auditee Comments System and procedures are corrected

FISCAL YEAR 2001

Finding Number 01-III-02 Reporting – No evidence of financial reports.

CFDA Number 16.710

Questioned Cost None

Auditee Comments System and procedures are corrected

Finding Number 01-III-03 Special Tests and Provisions – Requiring Centers' licensing.

CFDA Number 93.600

Questioned Cost None

Auditee Comments System and procedures are corrected

FISCAL YEAR 2000

Finding Number 00-III-02 Reporting – No evidence of financial reports.

CFDA Number 16.710

Questioned Cost None

Auditee Comments System and procedures are corrected

Finding Number 00-III-03 Special Tests and Provisions – Requiring Centers' licensing.

CFDA Number 93.600

Questioned Cost None

Auditee Comments System and procedures are corrected

continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE, PUERTO RICO**

SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2002

Finding Number 02-III-01 **Eligibility Tests – HUD-approved release and consent forms.**

CFDA Number 14.871

Questioned Cost None

Auditee Comments We proceed to review the participant's file in order to actualize the required documentation.

Finding Number 02-III-03 **Special Tests and Provisions – Housing Quality Standards inspections.**

CFDA Number 14.871

Questioned Cost None

Auditee Comments We proceed to review the participant's file in order to actualize the required documentation.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE

FORM **SF-SAC**
(3-20-2001)U.S. DEPT. OF COMM.- Econ. and Stat. Admin.- U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates On or After January 1, 2001**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)**

1. Fiscal period ending date for this submission Month / Day / Year Fiscal Period End Dates Must Be On or After January 1, 2001 06 / 30 / 2003		2. Type of Circular A-133 audit 1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	
3. Audit period covered 1 <input checked="" type="checkbox"/> Annual 3 <input type="checkbox"/> Other - _____ Months 2 <input type="checkbox"/> Biennial		FEDERAL GOVERNMENT USE ONLY	
4. Date received by Federal clearinghouse		5. Employer Identification Number (EIN) a. Auditee EIN 6 6 0 4 3 3 5 3 0 b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No <i>If Part I, Item 5b - "Yes," complete Part I, Item 5c (Complete the continuation sheet on Page 4)</i>	

6. AUDITEE INFORMATION	
a. Auditee name MUNICIPALITY OF SABANA GRANDE	
b. Auditee address (Number and street) P.O. BOX 356 City SABANA GRANDE State ZIP + 4 Code 0 0 6 3 7 - 0 3 5 6 PR	
c. Auditee contact Name MIGUEL G. ORTIZ VELEZ Title MAYOR	
d. Auditee contact telephone (787) 873 - 2060	
e. Auditee contact FAX (Optional) (787) 873 - 2590	
f. Auditee contact E-mail (Optional)	

7. AUDITOR INFORMATION (To be completed by auditor)	
a. Auditor name CPA DIAZ-MARTINEZ, PSC	
b. Auditor address (Number and street) P.O. BOX 8369 City CAGUAS State ZIP + 4 Code 0 0 7 2 6 - 8 3 6 9 PR	
c. Auditor contact Name JOSE E. DIAZ MARTINEZ Title PRESIDENT	
d. Auditor contact telephone (787) 746 - 0510	
e. Auditor contact FAX (Optional) (787) 746 - 0525	
f. Auditor contact E-mail (Optional) CPADIAZMATINEZ@HOTMAIL.COM	

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date
Month Day Year
02 / 09 / 04

Printed Name/Title of certifying official

MIGUEL G. ORTIZ VELEZ, MAYOR

g. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date
Month Day Year
02 / 05 / 04

CPA DIAZ-MARTINEZ, PSC

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
 1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1
9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.
- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No
3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5
4. Is any reportable condition reported as a material weakness? 1 Yes 2 No
5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
 1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No
3. What is the dollar threshold to distinguish Type A and Type B programs? (§ 520(b)) \$ 300,000
4. Did the auditee qualify as a low-risk auditee? (§ 530) 1 Yes 2 No
5. Is a reportable condition disclosed for any major program? (§ 510(a)(1)) 1 Yes 2 No - SKIP to Item 7
6. Is any reportable condition reported as a material weakness? (§ 510(a)(1)) 1 Yes 2 No
7. Are any known questioned costs reported? (§ 510(a)(3) or (4)) 1 Yes 2 No
8. Was a Summary Schedule of Prior Audit Findings prepared? (§ 315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)
- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input checked="" type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input checked="" type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.
 In addition, one copy each of the reporting package is required for:
 • the Federal Audit Clearinghouse archives
 • and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
 Count total number of boxes marked above and submit this number of reporting packages

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
Federal Agency Prefix ¹	CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
		Extension ²							
1 0		.558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 262,921 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 0		.770	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WATER AND WASTE DISPOSAL LOANS AND GRANTS	\$ 126,133 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 4		.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	STATE BLOCK GRANT PROGRAM	\$ 487,797 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 4		.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHER PROGRAM	\$ 678,323 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	AEN	03-III-01,03-III-03,03-III-04
1 6		.580	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EDWARD BYRNE MEMORIAL STATE PROGRAM	\$ 50,280 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 6		.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK PROGRAM	\$ 4,107 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 3		.544	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PUBLIC ASSISTANCE GRANT	\$ 16,792 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9 3		.044	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL PROGRAM FOR AGING, TITLE III, PART B	\$ 65,236 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9 3		.575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 251,313 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9 3		.600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START PROGRAM	\$ 4,293,066 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	D	03-III-02
TOTAL FEDERAL AWARDS EXPENDED →					\$ 6,760,717 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

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

⁴ N/A for NONE

FORM SF-SAC (3-20-2001)

PART III FEDERAL PROGRAMS - Continued (Page 3 - #2 of 2)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

11. AUDIT FINDINGS

CFDA Number (a)		Research and development (b)	Name of Federal program (c)	Amount expended (d)	Direct award (e)	Major program (f)	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
Federal Agency Prefix ¹	Extension ²							
9	3 .592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FAMILY VIOLENCE PREVENTION AND SERVICES	\$ 59,544 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .667	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SOCIAL SERVICES BLOCK GRANT	\$ 48,567 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EARLY HEAD START	\$ 416,638 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →				\$ 6,760,717 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

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

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

ESTADO LIBRE ASOCIADO DE PUERTO RICO
MUNICIPIO DE SABANA GRANDE

PLAN DE ACCIÓN CORRECTIVA - JUNIO 30, 2003
(SINGLE AUDIT - 2002-2003)

HON. MIGUEL G. ORTIZ VÉLEZ, ALCALDE

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SABANA GRANDE

CORRECTIVE ACTION PLAN FOR THE YEAR ENDING JUNE 30, 2002

Auditor's Report: Single Audit (June 30, 2003)

Time Audited: July 1, 2002 to June 30, 2003

Certified by: Hon. Miguel G. Ortiz Vélez, Mayor

Delivery Date::

Designated Official:

Name: Anibal Torres Santiago

Title: Internal Auditor

Phone no.: 873-2060 Ext. 210 ó 233

FINDING	RECOMMENDATION	CORRECTIVE ACTION	RESULTS
<p>Number 03-II-01</p> <p><u>Reportable Condition over Property, Plant and Equipment</u></p> <p>During our examination of Municipality's property record and reports we noted the following deficiencies; (1) Construction in Progress accounted as part of Property, Plant and Equipment account balances were not properly valued; (2) there is no adequate internal control procedures to assure the proper valuation and timely recognition of real estate inventory. (This is a prior year finding.)</p>	<p>The Municipality should implement internal control procedures in order to comply with this requirement.</p>	<p>The Municipality of Sabana Grande is in the process of implanting the GASB 34 regulation with the CPA Díaz-Martínez Firm which has a contract with us that includes the development of a computerized system that will enable us to capitalize the constructions in progress. This will correct the existing findings.</p>	<p>PARTIALLY COMPLETED</p>

FINDING	RECOMMENDATION	CORRECTIVE ACTION	RESULTS
<p>Number 03-III-01</p> <p><u>Section 8 Housing Choice Voucher Program (CFDA NO. 14.871) U.S. Department of Housing and Urban Development</u></p> <p>It was noted in our test of Municipality's internal control over disbursements process, that supporting documents (invoices) related to eight (8) checks issued were not stamped as paid.</p>	<p>The Municipality should stamp paid all disbursement supporting documents in order to assure compliance with this requirement.</p>	<p>The Section 8 office has stamped all the invoices paid during the fiscal year audited. Instructions were given to the personnel for all invoices to be stamped once they have been paid</p>	<p>COMPLETED</p>
<p>Number 03-III-02</p> <p><u>Head Start Program (CFDA NO. 93.600) U.S. Department of Health and Human Services Pass-Through State - Administration of Children and Families.</u></p> <p>Municipality did not perform the required procedures to ensure that contractors paid prevailing wages according to the Department of Labor rates as established by the Davis-Bacon Act.</p>	<p>We recommended The Head Start Program's management to perform the required procedures that includes obtaining prevailing wage rates from the Department of Labor and comparing it with the payroll of the contractor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, and to perform interviews to contractor's and subcontractor's laborers accordingly to the established requirements.</p>	<p>The Head Start Program will establish procedures to interview the contractor's employees or the sub-contractor at the beginning, interim and final phases of the project. We will establish coordination with the office of the Municipal Secretary in finding the Davis Bacon Act regulations that applies to the construction contracts to include the process of monitoring the payment of salaries established by the Department of Labor.</p>	<p>PARTIALLY COMPLETED</p>

FINDING	RECOMMENDATION	CORRECTIVE ACTION	RESULTS
<p>Number 03-III-03</p> <p><u>Section 8 Housing Choice Voucher Program (CFDA NO. 14.871) U.S. Department of Housing and Urban Development</u></p> <p>During our Participant Files Test we noted that two (2) participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.</p>	<p>We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.</p>	<p>The missing signatures were obtained. (copy attached)</p>	<p>COMPLETED</p>
<p>Number 03-III-04</p> <p><u>Section 8 Housing Choice Voucher Program (CFDA NO. 14.871) U.S. Department of Housing and Urban Development.</u></p> <p>During our verification of units with failed Housing Quality Standards inspections, we noticed that the Municipality did not establish the correction period in the document submitted to the person responsible for the repairs in one (1) participant's file. Also, we noticed that in two (2) participant's files there was no evidence of a unit inspection report or other verification documenting that any PHA-required repairs were completed.</p>	<p>We recommend management to implement internal control procedures to establish a correction time period, to assure that the unit's Housing Quality Standards deficiencies were corrected during the specified period established by the federal regulation.</p>	<p>This finding was not followed through, instructions were given to the inspector, a follow up will be conducted on all inspections and all documents to be filed. (copy of letter attached)</p>	<p>PARTIALLY COMPLETED</p>

Handwritten initials/signature

ATTACHMENT #1

Consent: I consent to allow HUD or the HA to request and obtain income information from the sources listed on this form for the purpose of verifying my eligibility and level of benefits under HUD's assisted housing program. I understand that HA's that receive income information under this consent form can use it to deny, reduce or terminate assistance without first independently verifying what the amount was, whether I actually had access to the funds and when the funds were received. In addition, I must be given an opportunity to contest those determinations.

This consent form expires 15 months after signed.

Signature:

Rebecca Unayo Ortiz 6/28/2002
 Head of Household Date

584-84-1237
 Social Security Number (if any) of Head of Household

Obio R. Jones Arroyo 6/28/2002
 Other Family Member over age 18 Date

Spouse Date
Viviantha Centron Arroyo 6/28/2002
 Other Family Member over age 18 Date

Vivian L. Centron Arroyo 6/28/2002
 Other Family Member over age 18 Date

Privacy Act Notice. Authority: The Department of Housing and Urban Development (HUD) is authorized to collect this information by the U.S. Housing Act of 1937 (42 U.S.C. 1437 cf. seq.), Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), and by the Fair Housing Act (42 U.S.C. 3601-19). The Housing and Community Development Act of 1987 (42 U.S.C. 3543) requires applicants and participants to submit the Social Security Number of each household member who is six years old or older. Purpose: Your income and other information are being collected by HUD to determine your eligibility, the appropriate bedroom size, and the amount your family will pay toward rent and utilities. Other Uses: HUD uses your family income and other information to assist in managing and monitoring HUD-assisted housing programs, to protect the Government's financial interest, and to verify the accuracy of the information you provide. This information may be released to appropriate Federal, State, and local agencies, when relevant, and to civil, criminal, or regulatory investigators and prosecutors. However, the information will not be otherwise disclosed or released outside of HUD, except as permitted or required by law. Penalty: You must provide all of the information requested by the HA, including all Social Security Numbers you, and all other household members age six years and older, have and use. Giving the Social Security Numbers of all household members six years of age and older is mandatory, and not providing the Social Security Number will affect your eligibility. Failure to provide any of the requested information may result in delay of rejection of your eligibility approval.

Penalties for Misusing this consent:

HUD, the HA and any owner (or any employee of HUD, the HA or the owner) may be subject to penalties for unauthorized disclosures or improper uses of information collected based on the consent form.

Use of the information collected based on the form HUD 9886 is restricted to the purposes cited on the form HUD 9886. Any person who knowingly or willfully requests, obtains or discloses any information under false pretenses concerning an applicant or participant may be subject to a misdemeanor and fined not more than \$5,000.

Any applicant or participant affected by negligent disclosure of information may bring civil action for damages, and seek other relief, as may be appropriate, against the officer or employee of HUD, the HA or the owner responsible for the unauthorized disclosure or improper use.

Original is retained by the requesting organization.

ref. Handbooks 7420.7, 7420.8, & 74651

form HUD-9186 (7/94)

Consent: I consent to allow HUD or the HA request and obtain income information from sources listed on this form for the purpose of verifying my eligibility and level of benefit under HUD's assisted housing programs. I understand that HA's that receive income information under this consent form cannot use it to deny, reduce or terminate assistance without first independently verifying what the amount was, whether I actually had access to the funds and when the funds were received. In addition, I must be given an opportunity to contest those determinations.

This consent form expires 15 months after signed.

Signature:

Blanca L Cruz Rodriguez 13/09/2002
 Head of Household Date

582-31-8226
 Social Security Number (if any) of Head of Household

Johanne Maria Cruz 09/13/2002
 Other Family Member over age 18 Date

Spouse Date
Marilyn S. Rodriguez 09/13/2002
 Other Family Member over age 18 Date

Other Family Member over age 18 Date

Jessica Maria Cruz 03/13/2003
 Other Family Member over age 18 Date

Other Family Member over age 18 Date

Other Family Member over age 18 Date

Privacy Act Notice. Authority: The Department of Housing and Urban Development (HUD) is authorized to collect this information by the U.S. Housing Act of 1937 (42 U.S.C. 1437 cf. seq.), Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), and by the Fair Housing Act (42 U.S.C. 3601-19). The Housing and Community Development Act of 1987 (42 U.S.C. 3543) requires applicants and participants to submit the Social Security Number of each household member who is six years old or older. Purpose: Your income and other information are being collected by HUD to determine your eligibility, the appropriate bedroom size, and the amount your family will pay toward rent and utilities. Other Uses: HUD uses your family income and other information to assist in managing and monitoring HUD-assisted housing programs, to protect the Government's financial interest, and to verify the accuracy of the information you provide. This information may be released to appropriate Federal, State, and local agencies, when relevant, and to civil, criminal, or regulatory investigators and prosecutors. However, the information will not be otherwise disclosed or released outside of HUD, except as permitted or required by law. Penalty: You must provide all of the information requested by the HA, including all Social Security Numbers you, and all other household members age six years and older, have and use. Giving the Social Security Numbers of all household members six years of age and older is mandatory, and not providing the Social Security Number will affect your eligibility. Failure to provide any of the requested information may result in delay of rejection of your eligibility approval.

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Original is retained by the requesting organization.

ref. Handbooks 7420.7, 7420.8, & 74651

form HUD-9186 (7/94)

ATTACHMENT #2



MUNICIPIO DE SABANA GRANDE
P.O. BOX 356
SABANA GRANDE, P.R. 00637

OFICINA DE SECCIÓN 8

A: Desiree Morales Lebrón
Inspectora

DE: *Carmen M. Ortiz Félix*
Carmen M. Ortiz Félix
Directora de Sección 8

ASUNTO: Hallazgos del Single Audit 2002-2003

FECHA: 24 de febrero de 2004

He recibido los hallazgos del Single Audit del año fiscal 2002-2003, en el cual sé señala una falla con relación a su área.(Adjunto copia del mismo)

Es necesario que a todas las inspecciones que estén en falla se le den el debido seguimiento hasta que la vivienda pase la inspección, además todo documento relacionado con las inspecciones tiene que estar debidamente archivadas en los expedientes.

De modo que se eviten futuros señalamientos e incumplir con los reglamentos del programa.

Anejo

Telefono: 787-873-2060 x 304 ó 305

Fax: 787-873-3863

Email: msgpgsc8@caribe.net