

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SALINAS

AUDITORIA 2001-02

30 DE JUNIO DE 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SALINAS

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2002

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SALINAS

YEAR ENDED JUNE 30, 2002

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SALINAS

YEAR ENDED JUNE 30, 2002

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

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

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

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

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

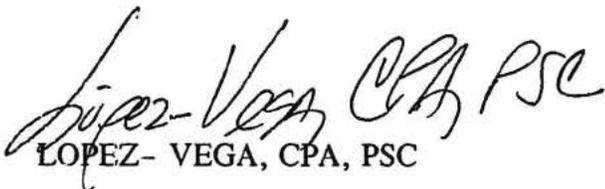
As indicated in **Note 13**, at June 30, 2002, the Municipality had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Post closure Care Costs.

INDEPENDENT AUDITORS' REPORT (Continued)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 15, 2002

Stamp No. 1854001 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash	\$19,398	\$236,272	\$979,214	\$1,173,433			\$2,408,317
Cash with fiscal agent		88,861		760,412			849,273
Municipal license taxes receivable	1,581						1,581
Intergovernmental receivables	318,921	247,799					566,720
Federal grants receivable		68,296					68,296
Other receivables	52,215						52,215
Due from other funds	642,014	931,950		656,459			2,230,423
Property and equipment					\$5,602,459		5,602,459
Amount available in Debt Service Fund						\$979,214	979,214
Amount to be provided for retirement of general long-term debt						7,323,284	7,323,284
Total assets and other debits	\$1,034,129	\$1,573,178	\$979,214	\$2,590,304	\$5,602,459	\$8,302,498	\$20,081,782
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$229,120	\$5,168					\$234,288
Due to other funds	1,588,409	542,014		\$100,000			2,230,423
Due to other governmental entities	360,574					\$281,083	641,657
Deferred municipal license tax revenues	422,092						422,092
Deferred federal grant revenues		336,449					336,449
Deferred other	17,627						17,627
Claims and judgments	59,830					672,696	732,526
General obligation bonds						4,392,379	4,392,379
Notes payable						765,000	765,000
Advance property tax debt						1,487,490	1,487,490
Other long term debts						5,433	5,433
Accrued compensated absences						698,417	698,417
Total liabilities	2,677,652	883,631	-	100,000	-	8,302,498	11,963,781
Fund equity:							
Investment in general fixed assets					5,602,459		5,602,459
Fund balances:							
Reserved for encumbrances	960,559						960,559
Reserved for debt service			979,214				979,214
Unreserved:							
Designated for specific fund purposes		689,547		2,490,304			3,179,851
Undesignated	(2,604,082)						(2,604,082)
Total fund equity (deficit)	(1,643,523)	689,547	979,214	2,490,304	5,602,459		8,118,001
Total liabilities and fund equity	\$1,034,129	\$1,573,178	\$979,214	\$2,590,304	\$5,602,459	\$8,302,498	\$20,081,782

See accompanying notes to general purpose financial statements.

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

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES					
Property taxes	\$1,832,417		\$506,203		\$2,338,620
Municipal license taxes	729,962				729,962
Licenses and permits	269,590				269,590
Intergovernmental	4,230,035	\$994,505		\$1,804,253	7,028,793
Rent of property	99,132				99,132
Fines and penalties	2,220				2,220
Interest	47,115				47,115
Federal grants		956,821			956,821
Miscellaneous	750,588				750,588
Total revenues	<u>7,961,059</u>	<u>1,951,326</u>	<u>506,203</u>	<u>1,804,253</u>	<u>12,222,841</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	836,045				836,045
General government	2,442,162	646,983			3,089,145
Public safety	548,088	91,136			639,224
Public works	1,461,134	34,009			1,495,143
Public health and sanitation	1,365,510	17,271			1,382,781
Welfare	34,884	451,693			486,577
Economic development	33,489				33,489
Recreation	634,442	216,540			850,982
Debt service:					
Principal retirement	107,500		183,000		290,500
Interest	97,906		175,225		273,131
Capital outlays	<u>51,025</u>	<u>461,918</u>		<u>1,080,147</u>	<u>1,593,090</u>
Total expenditures	<u>7,612,185</u>	<u>1,919,550</u>	<u>358,225</u>	<u>1,080,147</u>	<u>10,970,107</u>
Excess (deficiency) of revenues over (under) expenditures	<u>348,874</u>	<u>31,776</u>	<u>147,978</u>	<u>724,106</u>	<u>1,252,734</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds				765,000	765,000
Operating transfers to other funds	300,000				300,000
Operating transfers from other funds				300,000	300,000
Total other financing sources (uses)	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>1,065,000</u>	<u>1,365,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>48,874</u>	<u>31,776</u>	<u>147,978</u>	<u>1,789,106</u>	<u>2,017,734</u>
Fund balances(deficit), beginning, as restated	<u>(1,692,397)</u>	<u>657,771</u>	<u>831,236</u>	<u>701,198</u>	<u>497,808</u>
Fund balances (deficit) , ending	<u>(\$1,643,523)</u>	<u>\$689,547</u>	<u>\$979,214</u>	<u>\$2,490,304</u>	<u>\$2,515,542</u>

See accompanying notes to general purpose financial statements.

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

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$1,587,677	\$1,832,417	\$244,740	\$503,259	\$506,203	\$2,944
Municipal license taxes	772,497	729,962	(\$42,535)			
Licenses and permits	1,400,500	269,590	(1,130,910)			
Intergovernmental	3,981,266	3,911,114	(70,152)			
Rent of property	112,784	99,132	(13,652)			
Fines and penalties	2,000	2,220	220			
Interest	75,000	47,115	(27,885)			
Miscellaneous	840,837	750,588	(90,249)			
Total revenues	<u>8,772,561</u>	<u>7,642,138</u>	<u>(1,130,423)</u>	<u>503,259</u>	<u>506,203</u>	<u>2,944</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,003,920	951,565	52,355			
General government	1,935,990	2,666,002	(730,012)			
Public safety	646,027	550,565	95,462			
Public works	2,228,204	1,338,502	889,702			
Public health and sanitation	1,502,002	1,375,021	126,981			
Welfare	51,577	34,884	16,693			
Economic development	44,696	33,489	11,207			
Recreation	712,846	699,301	13,545			
Principal retirement	168,003	107,500	60,503	292,919	183,000	109,919
Interest	97,906	97,906	-	210,340	175,225	35,115
Capital outlays	81,390	51,025	30,365			
Total expenditures and encumbrances	<u>8,472,561</u>	<u>7,905,760</u>	<u>566,801</u>	<u>503,259</u>	<u>358,225</u>	<u>145,034</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	<u>300,000</u>	<u>(263,622)</u>	<u>(563,622)</u>		<u>147,978</u>	<u>147,978</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds						
Operating transfers to other funds	(300,000)	(300,000)	-			
Total other financing sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>-</u>			
Excess (deficiency) of revenues and other financing sources over (under) expenditures, encumbrances and other financing (uses)	<u>-</u>	<u>(563,622)</u>	<u>(563,622)</u>			
Adjustment required under Generally Accepted Accounting Principles:						
GAAP adjustments to revenues		318,921				
Current year encumbrances treated as current year expenditures for budgetary basis		555,354				
Prior year encumbrances paid during the current year		(261,779)				
Fund balances (deficit), beginning, as restated		<u>(1,692,397)</u>		<u>831,236</u>		
Fund balances (deficit), ending		<u><u>(\$1,643,523)</u></u>		<u><u>\$979,214</u></u>		

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Salinas** (the Municipality) was established in 1841. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

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

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

A. Financial reporting entity:

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

B. Basis of presentation:

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

Governmental fund types:

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

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

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

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

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

Account groups:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

C. Basis of accounting:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

E. Budgetary data (continued):

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

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

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

F. Inventories:

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

G. Property and equipment:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

H. Cash:

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

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

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

J. Compensated absences:

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

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

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

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

K. Insurance:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

L. Total columns (memorandum only):

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

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

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

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Puerto Rico Electric Power Authority (PREPA)	\$ 29,713
Puerto Rico Aqueduct and Sewer Authority	258,536
General Services Administration	53,764
Department of Treasury (Income Tax)	12,650
Commonwealth of PR Employees Association	5,911
	<hr/>
Total	\$ 360,574

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

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

Department of Labor	\$ 95,530
Department of Treasury (Income tax)	<u>185,553</u>
Total	<u>\$ 281,083</u>

3. PROPERTY TAXES:

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

Tax rates are 8.33% for real property and 6.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

3. PROPERTY TAXES (CONTINUED):

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. At the date of the release of these financial statements, the CRIM issued the final liquidation noting that the collections were in excess of advances by \$318,921. Such amount was included as intergovernmental receivables in the General Fund at June 30, 2002. Also, the Municipality has a \$1,487,490 property tax advance debt balance from prior years (\$1,264,310 owed to CRIM, and \$223,180 owed to Treasury Department); such balance was included as a long-term debt in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002.

4. MUNICIPAL LICENSE TAXES:

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

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.50%

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

5. INTERGOVERNMENTAL:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

5. INTERGOVERNMENTAL (CONTINUED):

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

6. DEBT SERVICE FUND:

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

7. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

8. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2001	\$4,647,879
Debt issued	-
Principal retirements	<u>(255,500)</u>
Balance at June 30, 2002	<u>\$ 4,392,379</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

8. GENERAL OBLIGATION BONDS (CONTINUED):

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

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1982 Series	1-1-08	\$ 600,000	5.00%	\$ 218,000
1985 Series	1-1-10	1,092,000	6.00%	586,879
1992 Series	10-1-12	2,300,000	4.38% - 8.25%	1,592,500
1997 Series	7-1-17	2,240,000	0.00% - 8.00%	1,995,000
Total general obligation bonds				<u>\$4,392,379</u>

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

Year ended June 30	Total
2003	\$ 244,000
2004	286,500
2005	306,000
2006	330,500
2007	349,000
Thereafter	<u>2,876,379</u>
Total	<u>\$ 4,392,379</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

9. NOTES PAYABLE:

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

Balance at July 1, 2001	\$ 40,000
Debt issued	765,000
Payments during the current year	(35,000)
Adjustments\Reclassifications	<u>(5,000)</u>
Balance at June 30, 2002	<u>\$ 765,000</u>

Notes payable at June 30, 2002 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2002
2002 Series	7-1-07	395,000	5.00% - 7.00%	\$ 395,000
2002 Series	7-1-08	370,000	5.00% - 7.00%	<u>370,000</u>
Total notes payable				<u>\$ 765,000</u>

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

Year ended June 30	Total
2003	\$ 100,000
2004	115,000
2005	125,000
2006	135,000
2007	140,000
Thereafter	<u>150,000</u>
Total	<u>\$ 765,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN (CONTINUED)

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

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

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

Defined Contribution Plan

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN (CONTINUED):

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002 recorded as pension expenditures was approximately \$ 208,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

10. RETIREMENT PLAN (CONTINUED):

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

11. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

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

12. LANDFILL OBLIGATIONS:

The Municipality of Salinas owns a solid waste landfill. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2002, the Municipality has not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

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

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 672,696 in the general long-term debt account group for anticipated and final unfavorable judgments. Also, the Municipality has reported liabilities of \$59,830 in the general fund for unfavorable judgments. The amount presented in the general long-term debt group of account represents the amount of estimated as probable liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

14. BEGINNING FUND BALANCES RESTATEMENT:

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

Description	General	Debt Service Fund
Beginning Fund Balances (Deficit) at July 1, 2001	\$ (1,911,583)	\$ 668,746
Prior years CRIM debt reclassified to General Long term Debt Account Group	27,040	
CRIM account receivables not recognized as of 6/30/01	192,146	
Prior years CAE Receivables collected during this year		162,490
Beginning Fund Balances (Deficit) at July 1, 2001, as restated	<u>\$ (1,692,397)</u>	<u>\$ 831,236</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

15. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:

On August 20, 2002 the Municipality of Salinas authorized the issuance of a special obligation bond for the amount of \$1,495,000. Repayment of the bond is scheduled from July 2003 through July 2027.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program :			
Section 8 Housing Choice Voucher	14.871		\$ 310,823
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	89-FD-56 96-FD-56 97-FD-56 98-FD-56 99-FD-IP-56 00-FD-56 01-FD-56	393,407
Total U.S. Department of Housing and Urban Development			704,230
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety and Community Policing Grant	16.710		68,818
Pass-through the Commonwealth of Puerto Rico- Governor's Office (Youth Office)			
Juvenile Justice and Delinquency Prevention	16.540		17,674
Total U.S. Department of Justice			86,492

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency:			
Emergency Management - State and Local Assistance	83.552	Not Available	4,644
Pass-through the Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1247-DR-PR 1136-DR-PR	151,450
Total U.S. Federal Emergency Management Agency			<u>156,094</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFA):			
Community Services Block Grant	93.569	Not Available	10,005
Total U.S. Department of Health and Human Services			<u>10,005</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 956,821</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2002

1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue
Per Schedule of Expenditures of Federal Awards	\$ 956,821
Non federal programs expenditures	962,729
Total expenditures in the general purpose financial Statements	<u>\$ 1,919,550</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

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

We have audited the general purpose financial statements of the **Municipality of Salinas** as of and for the year ended June 30, 2002, and have issued our report thereon dated October 15, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Salinas's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Salinas's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items 02-01 through 02-08.

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

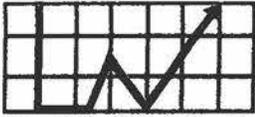
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe items **02-01** and **02-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Salinas** in a separate letter dated October 15, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
October 15, 2002

Stamp No. 1854002 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

Compliance

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

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

In our opinion, the **Municipality of Salinas** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-09** through **02-21**.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Salinas's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **02-09** through **02-21**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **02-11**, **02-13** and **02-17** through **02-21** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Salinas** in a separate letter dated February 25, 2003.



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

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 25, 2003

Stamp No. 1854003 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal awards

Internal Control over major programs:			
Material weakness identified?	Yes	X	No
Reportable conditions identified not considered to be material weaknesses?	Yes	X	None reported

Type of auditors’ report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No
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Identification of major programs:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference **02-01**

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

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

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

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

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

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

Questioned Costs None

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-02
Requirement	Financial Reporting
Statement of Condition	The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure costs.
Criteria	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
Cause of Condition	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
Effect of Condition	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
Recommendation	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference 02-03

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference 02-04

Requirement Expenditures for Goods and Services and Accounts Payable -
Purchasing

Statement of Condition During our examination of the Municipality's procedures related to the
purchasing and receiving process we examined sixty (60) disbursement
vouchers and we noted the following:

- a. Two (2) disbursement vouchers were not marked as paid.
- b. Two (2) disbursement vouchers were not recorded in the correct account.
- c. Three (3) quotations were not available for examination in eleven (11) disbursement vouchers.
- d. Four (4) disbursement vouchers were not available for our examination.
- e. Four (4) cancelled checks were not available for examination.
- f. The original invoice signed by the supplier was not available for examination in eleven (11) disbursement vouchers.
- g. In six (6) disbursement vouchers there was a lack of supporting documents.
- h. The original invoice was not signed by the supplier in twelve (12) disbursement vouchers.
- i. In four (4) disbursement vouchers the purchase order was prepared after the services were received by the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference 02-04 (Continued)

- j. Approved and pre-numbered purchase orders were not available for examination in two (2) disbursement vouchers.
- k. In one (1) case the disbursement voucher did not include all the approvals.
- l. Approved and pre-numbered requisitions were not available for examination in thirty eight (38) disbursement vouchers.
- m. Receiving Report or the certification of the Municipal employee who had knowledge of the receiving of goods or services was not available for examination in seven (7) disbursement vouchers.
- n. Receiving Report or the certification of the Municipal employee who had knowledge of the receiving of goods or services was not signed in seventeen (17) disbursement vouchers.
- o. In one (1) disbursement voucher the Municipality did not prepare a purchase order for the contract amount. Partial purchase orders were prepared to perform payments.
- p. The Municipality did not prepare a certification that includes the name, title and signature of the person who performed the quotation process in one (1) disbursement voucher.
- q. The Municipality did not maintain adequate procedures to document the quotation process.

Criteria

The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II – Financial Statements Findings

Finding Reference	02-04 (continued)
Cause of Condition	The Municipality did not establish effective internal control to assure that all transactions include all the required documentation as required by law.
Effect of Condition	The Municipality is not in compliance with Chapter Four (4) and Chapter (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend that the Municipality should improve its internal control procedures in order to assure that a disbursement voucher contains all supporting documents before the payment is made. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase of goods or services that do not exceed \$ 10,000 and construction contracts that do not exceed \$ 40,000 or realize formal bids for purchases that exceed that limits.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-05**

Requirement **Expenditures for Goods and Services and Account Payables -
Purchasing**

Statement of Condition During our examination of the Municipality's procedures related to the formal procurement process we examined four (4) bid files and other related documents and we noted the following situations:

- a. We did not find evidence in the bid files regarding mailing of adjudication or non-adjudication notification letters through certified mail for thirty seven (37) bidders who participated in the formal bids.
- b. Two (2) contracts were not available for examination.
- c. In one (1) case the announcement on a general circulation newspaper was not available for examination. As result, we could not verify if it was disclosed in the newspaper ten (10) days before the formal bid date.
- d. One (1) bid quotation was not available for examination.
- e. In one (1) bid we could not verify if the bid was adjudicated to the qualified lowest bidder. In addition, we did not find evidence on file of contracts and the required bonding, insurances or tax requirements.

Criteria The Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.

Cause of Condition The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-05 (Continued)
Effect of Condition	The Chapter Eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.
Management Response	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-06**

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

Statement of Condition We performed a cash receipt test and examined a sample of sixty (60) collections. The following summarize the exceptions found:

- a. In one (1) case the permits from the Governmental Agency which approved construction projects and established the project estimate cost (ARPE) was not available for examination. As result, we could not re-calculate the construction excise tax collected by the Municipality.
- b. One (1) cash receipt related to a bid bond deposit, did not indicate the proper description as bid description or number.
- c. We noted that the Municipality transferred funds from the General Fund to a Local Special Revenue Fund and the cash receipt did not indicate an explanation of the fund transfer. The Municipality did not maintain a proper control to account for transfer of funds between the General Fund and the other funds.
- d. In one (1) case the Municipality did not require the audited financial statements for volume sales taxpayer whose volume of business exceed one million dollars (\$1,000,000). A five percent discount was applied to the taxpayer return. We consider that the discount was incorrectly applied because the taxpayer did not submit the required documentation to the Municipality.
- e. In one (1) case we could not reconcile the total volume of business as per volume sales tax return to the volume of business amount reported in the audited financial statements.

Criteria

The Section Four (4) of the Chapter three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Collector should realize a daily revision of amount collected through receipts and amount deposited in bank to assure that the revenues has been duly processed in the period of collection.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-06 (continued)
	The Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statements in the case of taxpayers with a volume of business in excess of one million dollars (\$1,000,000).
Cause of Condition	The internal control procedures failed to assure that taxpayer files, construction excise tax and other collections were properly documented.
Effect of Condition	The Municipality is not complying with regulations stated in the Chapter Three (3), Section (4) and Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality to assign one person to verify that all volume sales taxpayer, construction excise tax and other collections include all required documents.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference	02-07
Requirement	Payroll and Related Liabilities - Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the exceptions noted:</p> <ul style="list-style-type: none">a. In one (1) instance the employee gross salary per payroll report did not agree with gross salary per documents in the employee's file.b. In five (5) instances the employee position per payroll report did not agree with the employee position per documents in the employee's file.c. In one (1) instance the Immigration Form (I-9) was not duly completed.d. In seventeen (17) instances the Immigration Form (I-9) was not included in the employee's file.e. In one (1) instance the 499 R4 Form was not duly completed.f. In five (5) instances the 499-R4 Form was not included in the employee file.g. In two (2) instances the contract states a monthly salary of \$900 and the Municipality paid \$850 for \$50.00 underpayment.h. In one (1) instance the employee assistance card detailed that the employee work eight hours for two consecutive days. In change, those hours were discounted to the employee from the accrue vacation card.i. In one (1) instance the compensated absences records were not updated.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-07 (Continued)**

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files. Also, Article 11.023 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated employee files.

Cause of Condition The Municipality's internal control procedures failed to assure the proper preparation and payment of payroll, the correctness of compensated absences balances, and the maintenance of updated employee files.

Effect of Condition The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.

Recommendation We recommend the Municipality to improve its procedure to assure that the Human Resource Department maintains updated employees files. We also recommend that the Human Resources Department should actualize and maintain up to date compensated absences and assistance records related to each employee.

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-08**

Requirement **Expenditures for Goods and Services and Account Payables - Purchasing**

Statement of Condition During our examination of the Municipality's procedures related to the formal procurement process we examined four (4) bid files and other related documents and noted the following situations:

- a. We did not find evidence about bid bonds required by the Municipality's Bid Board for sixteen (16) bidders that participated in the formal bids.

- b. We did not find evidence in the bid files or contract files about the following bonding, insurance or tax requirements:
 1. Payment and Performance Bond - Two (2) cases
 2. Workmen's Compensation Insurance - Two (2) cases
 3. General Liability Insurance - Two (2) cases
 4. Municipal Sales Volume Tax - Three (3) cases
 5. Municipal Excise Construction Tax - Two (2) cases

Criteria Article 8.016 (c) of State Act Number 81 of August 30, 1991 establishes that prior to the execution of construction contracts, the Municipality shall obtain from contractors evidence of Workmen Compensation Insurance payment, a Payment and Performance Bond, and whatever bond or insurance required by the Municipality's Bid Board. Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids for the purchase of goods or services.

Cause of Condition The Municipality's internal control procedures failed to assure that all required documents has been retained in a file (bid and contract files) as evidence of compliance with the procurement requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

Finding Reference **02-08 (Continued)**

Effect of Condition The Municipality is not in compliance with the Article 8.016 (c) of State Act Number 81 of August 30, 1991, and with the Chapter eight (8) of the Revised Regulation on Basic Standards for the Municipalities of Puerto Rico.

Recommendation We recommend the Municipality's management to improve its internal control and procedures in order to assure that formal bid files includes all required documents. Also, we recommend retaining in contract files all documents required by Law or Regulation prior to any contract execution in order to demonstrate compliance with procurement requirements.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-09
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	Our cash management test revealed the following exceptions a. The Municipality’s funds transferred from the Federal Agency were disbursed after two (2) months of receiving such funds. This exceptions are related to requisition two (2) and twenty two (22). As result, the disbursements were not made in a reasonable time after the receipt of funds.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.
Cause of Condition	There is no adequate internal controls to assure that funds requested to the pass-through grantor are disbursed for immediate needs.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart I, Sec. 570.489 (c).
Recommendation	We recommend the Municipality’s management to request funds only for immediate needs.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-10
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test, we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees; contractor's and subcontractor's laborers interviews were not made periodically and contractor weekly payrolls were not requested promptly during activity of construction project to be reviewed by the Municipal employee responsible of applying monitoring procedures.
Criteria	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
Cause of Condition	The Municipality did not apply all monitoring system procedures developed to test payment of prevailing wages to the applicable contractors.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603, and Subpart C, 44 CFR 13.36.
Recommendation	We recommend management to follow monitoring system procedures developed including obtaining contractor's and if applicable subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee and interviewing contractor's and subcontractor's (if applicable) laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-11
Program	Community Development Block Grant - State's Program (CFDA No. 14.228); U.S. Department of Housing and Urban Development; Pass through State - Office of Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management
Statement of Condition	Section II - Financial Statements Findings - Finding Reference 02-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-12
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test, we observed that: two (2) contracts did not include a provision for compliance with Executive Order 11246 “Equal Employment Opportunity; two (2) contracts did not include a provision for compliance with Sections 103 and 107 of the Contracts Work Hours and Safety Standards Act; two (2) contracts did not include provisions for compliance with Energy Policy and Conservation Act; five (5) contracts did not include a provision for compliance with “Anti-kickback” Act (Contracts for construction and repairs); two (2) contracts did not include a provision for compliance with the Clean Air Act and Water Act; two (2) contracts did not include a provision for compliance with Davis Bacon Act; one (1) contract did not include a provision for retention of all required records for three years; two (2) contracts did not include a provision for compliance with contractual legal remedies when contractor violates the contract term; one (1) contract did not include a provision for compliance with EO-1991-55 (Certification of Income Tax).
Criteria	Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations. Code of Federal Regulations 24, Subpart C, Section 85.36 (I) (1-13) states the provisions that contract must include.
Cause of Condition	The Municipality did not maintain appropriate procurement standard procedures in order to assure that contracts include all the provisions required by Federal Statutes, Executive Orders and implementing regulations.
Effect of Condition	Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36 (I) (1-13) and CFR 24, Part 570.489 (g).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-12 (continued)
Recommendation	We recommend management to update the contract model according with the federal requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-13
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Reporting
Statement of Condition	During our reporting test, we noted the following exceptions: <ul style="list-style-type: none">a. The quarterly reports for the period of March, 2002 were submitted lately to Pass-through Grantor.b. Cash outlays per general ledgers pertaining to program years 2000 and 2001 disagree with cash outlays reported in the quarterly reports for the period ended June 30, 2002.
Criteria	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
Cause of Condition	The Municipality did not maintain an adequate financial management system to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart I, Sec. 570.489 (d) (1).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-13 (Continued)

Recommendation We recommend the Municipality to maintain a full set of accounting records, which adequately identify the source and application of funds provided for financially-assisted activities. Also, the accounting records must contain all information pertaining to grant or sub-grant awards and authorizations, obligations, un-obligated balances, assets, liabilities, outlays or expenditures, and income. In addition, we recommend Management to prepare and submit all reports required per grant agreements in compliance with established deadlines. If the deadlines are not achievable, a request for an extension should be obtained from the Pass-through Grantor.

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-14**

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

Requirement **Eligibility of Individuals**

Statement of Condition During our examination of twenty five (25) participant files, we noted the following exceptions related to the Housing Assistance Payment calculation:

- a. The payment standard used to calculate the Housing Assistance Payment was not updated with the Current HUD "Fair Market Rent tables in sixteen (16) participant files.
- b. In one participant file the Municipality paid \$300 to the owner as Housing Assistance Payment and the Family Report detailed \$275 as Housing Assistance Payment. As result, the Municipality paid an incorrect amount.
- c. In one (1) participant file the program used an incorrect utility allowance amount to calculate the Housing Assistance Payment. In addition, the participant received child support income during the period which was not included in the Housing Assistance Payment calculation.

Criteria Code of Federal Regulations 24, Section 982.503 establishes how the PHA must determine and use the payment standard. Code of Federal Regulations 24 CFR, Section 982.505 establishes the procedures to follow in order to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, Chapter six (6) establishes procedures for the HAPs calculation.

Cause of Condition The Federal Programs Department did not maintain consistency and monitoring procedures in order to assure that the Housing Assistance Payment standard used in the Family Report calculation is in accordance with the updated HUD Fair Market Rent tables. Also, no monitoring procedures are maintained in order to detect incorrect computation of Housing Assistance Payments.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-14 (Continued)
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.503 and 982.505.
Recommendation	We recommend establishing monitoring procedures to assure that Housing Assistance payments are duly computed as required by the Federal Regulations.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-15
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Eligibility of individuals
Statement of Condition	<p>During our eligibility test, we examined a sample of twenty five (25) participant files. The following summarize the exceptions found:</p> <ul style="list-style-type: none">a. Twenty one (21) participant files did not include a General Release Form to allow PHA to obtain information from third parties.b. Four (4) participant files did not include a federally prescribed General Release Form for employment information.c. In (15) participant files the Privacy Act Notice was not updated by the program during the participant annual reexamination.d. In six (6) participant files the Privacy Act Notice was not signed by participants with eighteen years or older.e. In one (1) participant file the application form was not completed during PHA staff interview.f. In four (4) participant files the Housing Assistance Payment contract was not available for our examination.
Criteria	<p>Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a federally prescribed General Release Form for employment information and a Privacy Act Notice.</p>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-15 (Continued)
Cause of Condition	The Municipality does not maintain adequate monitoring procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516.
Recommendation	We recommend the Program to establish adequate monitoring procedures in order to assure that release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants information are included in the participant files as required by Federal Regulations.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-16
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Reporting
Statement of Condition	During our reporting test, we noted the following exceptions: a. The General Ledger Operating Reserve account and the Prepaid Annual Contribution account were not properly adjusted by the program as per HUD revised closing report.
Criteria	OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), requires that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. Also, Subpart C, 24 CFR 85.20 (b) (2), states that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
Cause of Condition	The Municipality did not reconcile the general ledger account balance to HUD revised closing reports in order to adjust the differences.
Effect of Condition	The Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b) (1) and 85.20 (b) (2).
Recommendation	The program must improve its reconciliation procedures in order to assure that the accounting records balances agree with the HUD revised closing reports.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-17
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Performance Reporting
Statement of Condition	The Municipality answers a (yes) for the items 1(a) and (b), 2(b), 4, 5, 6, 10, 12 and 13 of the SEMAP Report, nevertheless, the results of our test shows exceptions related to the compliance with those requirements.
Criteria	Code of Federal Regulations 24, Section 985.3 states that under SEMAP, PHAs must submit an annual certification, Form HUD-52648 (OMB No. 2577-0215), to HUD concerning their compliance with program requirements under 14 indicators of performance. Finally, HUD will realize on site visits and verify the Independent Auditors Annual Audit Reports to assure the compliance with this requirement.
Cause of Condition	The Municipality did not maintain adequate monitoring procedures to assure the program compliance with the SEMAP Report requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 985.3.
Recommendation	We recommend to the Municipality to establish adequate monitoring procedures in order to assure the program compliance with federal regulations.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-18
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Selection from the Section 8 Waiting List
Statement of Condition	During our waiting list test, we found the following exceptions: <ul style="list-style-type: none">a. The waiting list did not detail the Racial or Ethnic designation of the head of household and did not detail if the participants qualify or not for any federal or local preference.b. We could not determine how participants were selected from the top of the waiting list.
Criteria	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The Municipality did not maintain adequate internal control procedures to assure that the waiting list include all information required by Federal Regulation and to assure that the participants were selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Sections 982.54 (d) and 982.201 through 982.207.
Recommendation	We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend management to establish adequate internal controls which allow us to perform a proper tracing of participants selected from the waiting list in order to assure the participant selection from the top of the waiting list.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **02-18 (Continued)**

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-19
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Reasonable Rent
Statement of Condition	We noted that the reasonable rent determination was not properly determined. The Municipality used only one housing unit as reference.
Criteria	Code of Federal Regulations 24, Sections 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and before any increase in the rent to the owner and all the times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. In addition, the PHA must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
Cause of Condition	The Federal Program Department did not maintain adequate documentation to support the basis for the determination that the rent paid to the owner is reasonable.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.507.
Recommendation	We recommend to the Federal Program Department to establish adequate controls to assure that the reasonable rent determination is performed for at least three (3) unassisted units and that appropriate documentation of the reasonable rent determination is maintained in participant's files.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-20
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Utility Allowance Schedule
Statement of Condition	The program did not actualize the Utility Allowance Schedule during the last year.
Criteria	Code of Federal Regulations 24, Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review the utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	No control procedures are maintained by the program to assure the compliance with this requirement.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.517.
Recommendation	The Municipality should properly document the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-21
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and HQS Enforcement
Statement of Condition	<p>During our verification of twenty five (25) participant files, we noted the following exceptions:</p> <ul style="list-style-type: none">a. In eight (8) participant files with inspection items which required repairs or changed by the property owner, we did not find evidence supporting that the corrections were performed in thirty (30) calendar days. We did not find any documentation on file where the Municipality notified the property owner that the Housing Assistance Payment has been stopped (abate).b. The Municipality did not perform the required Housing Quality Control re-inspections during the audit period.c. In two (2) participant files the inspection was performed after twelve a (12) months period.
Criteria	<p>Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.</p> <p>Code of Federal Regulations 24, Section 982.404 establishes that for units under contract that failed to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract.</p>

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	02-21 (Continued)
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and HQS Enforcement
Cause of Condition	The Municipality did not maintain adequate monitoring procedures to assure that annual re-inspections and Housing Quality Control re-inspections are properly performed. Also, the Municipality did not follow the procedures to assure the compliance with Housing Quality Standards Enforcements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.404 and 982.158 (b) and 982.405 (b).
Recommendation	<p>We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. Completed HQS inspections included in the sample must be no older than three months at the time of re-inspection. In addition, the quality control re-inspection should provide feedback on inspectors' work, which can be used to determine if individual performance or general HQS training issues need to be addressed.</p> <p>For HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate Housing Assistance Payments beginning no later than the first of the month following expiration of the PHA violation notice.</p>
Questioned Costs	None
Management Response	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SALINAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-07	14.228	<u>The Municipality did not maintain adequate cash management procedures.</u> No corrective action has been taken
01-08	14.228	<u>Davis-Bacon Act</u> No corrective action has been taken.
01-09	14.228	<u>The Municipality did not maintain adequate property records.</u> No corrective action has been taken
01-10	14.228	<u>Procurement and Suspension and Debarment</u> No corrective action has been taken.
01-11	14.228	<u>Reporting</u> No corrective action has been.
99-2	83.544	<u>Disbursement vouchers were not available for examination</u> No corrective action has been taken.
