

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

MUNICIPIO DE SAN JUAN
AUDITORIA 2001-02
30 DE JUNIO DE 2002

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Reports on Compliance and Internal Control in
Accordance with Government Auditing Standards
and the Requirements of OMB Circular A-133 and
the Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2002

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2002

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART I

INDEPENDENT AUDITORS' REPORT

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

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

We have audited the financial statements of the Municipality of San Juan, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2002, which standard opinion was modified to state the adoption and implementation of provisions of Governmental Accounting Standard Board ("GASB") Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for States and Local Governments* and paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, and have issued our report thereon dated November 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-01 to 02-24. Because of the materiality of the Federal programs to the overall operations of the Municipality, instances of noncompliance relating to Federal programs in the items numbered 02-02 and 02-04 are included as compliance with the requirements of those Federal programs is necessary, in our opinion, for the Municipality to comply with applicable legal and regulatory requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 operations of the internal control over

financial reporting that, in our judgment, could adversely affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items numbered 02-02 to 02-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-02 and 02-04 to be material weaknesses.

This report is intended solely for the information and use of the Municipal Legislature, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 18, 2002

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO
EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

Compliance

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

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

As described in the table below and discussed in detail in the accompanying Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the requirements regarding allowable costs/costs principles; eligibility; equipment management; earmarking; suspension and debarment; reporting, and applicable special tests and provisions that are applicable to its Community Development Block Grants/Entitlement Grants, HOME Investment Partnerships Program, Housing Opportunities for Persons with AIDS, Section 8 Housing Choice Vouchers, Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation, Public Safety Partnership and Community Policing Grants (COPS), Workforce Investment Act (WIA), Head Start and HIV Emergency Relief

Project Grants. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to that program.

<u>Compliance Requirement</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable Costs/Cost Principles	Community Development Block Grants/Entitlement Grants Workforce Investment Act (WIA)	02-08 02-20, 02-21
Eligibility	HOME Investment Partnerships Program	02-9
Equipment Management	Community Development Block Grants/Entitlement Grants HOME Investment Partnerships Program Housing Opportunities For Persons With AIDS Section 8 Housing Choice Vouchers Head Start Workforce Investment Act (WIA)	02-07 02-10 02-12 02-15 02-18 02-22
Earmarking	Workforce Investment Act (WIA)	02-23
Suspension and Debarment	Housing Opportunities For Persons With AIDS	02-11
Reporting	Community Development Block Grants/Entitlement Grants Lower Income Housing Assistance – Section 8 Moderate Rehabilitation Public Safety Partnership and Community Policing Grants (COPS) HIV Emergency Relief Project Grants Workforce Investment Act (WIA)	02-06 02-13 02-16 02-19 02-24
Special Test and Provisions	Section 8 Housing Choice Vouchers Head Start	02-14 02-17

In our opinion, except for the instances of non-compliance identified above, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclose other 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.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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'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 02-06 to 02-24.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we believe none of the reportable conditions described above to be material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Municipality as of and for the year ended June 30, 2002, and have issued our report thereon dated November 18, 2002. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Municipality. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Municipal Legislature, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

November 18, 2002

Deloitte & Touche LLP

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART II

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PART I – SUMMARY OF AUDITORS’ RESULTS

1. The independent auditors’ report on the basic financial statements expressed an unqualified opinion with an explanatory paragraph regarding the implementation of GASB Statement No. 34.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weakness.
5. The independent auditors’ report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality’s major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 8 Housing Choice Vouchers	14.871
Community Development Block Grants/Entitlement Grants	14.218
Housing Opportunities for Persons with AIDS	14.241
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856
HOME Investment Partnerships Program	14.239
Head Start	93.600
HIV Emergency Relief Project Grants	93.914
Community Services Block Grant	93.569
Workforce Investment Act (WIA)	17.255
Public Safety Partnership and Community Policing Grants (COPS)	16.710

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Municipality did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II – SCHEDULE OF FINDINGS AND QUESTIONED COSTS:

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2002
Accounting and Finance Department		
02-01	The Municipality incurred expenditures in excess of the level of funds appropriated and available. (Prior Report Finding Number 01-01)	\$ -
02-02	The Municipality does not have adequate controls over payroll of employees working for federal programs.	-
02-03	The Municipality does not prepare periodic employee certifications. (Prior Report Finding Number 01-06)	-
02-04	The Municipality does not perform an annual property inventory. (Prior Report Finding Number 01-03)	-
02-05	The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when connecting services or procuring goods with federal funds. (Prior Report Finding Number 01-05)	-
Community Development Block Grant		
02-06	An inaccurate financial report was submitted to Federal Government. (Prior Year Finding Number 01-07)	-
02-07	The Municipality does not have adequate controls over property and equipment acquired with federal funds. (Prior Report Finding Number 01-08)	-
02-08	The Municipality does not have adequate controls over processing of debarments financed with federal funds.	10,200
Home Investment Partnership Program		
02-09	Controls over eligibility of HOME participants are ineffective.	30,000
02-10	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOME Program.	-
Housing Opportunities For Persons With AIDS		
02-11	The Municipality did not obtain a certification from its subcontractors indicating that their organization and it's principals were not suspended or debarred.	-
02-12	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOPWA Program.	-
Lower Income Housing Assistance Program		
02-13	The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger. (Prior Report Finding Number 01-18)	-
Section 8 Housing Choice Vouchers		
02-14	The Municipality did not ensure that owners of program units failing to meet Housing Quality Standards ("HQs") corrected deficiencies within 30 calendar days or within any specified extension approved by them.	-
02-15	The Municipality is not maintaining adequate controls over property and equipment items acquired by the Section 8 Housing Choice Vouchers Program.	1,701
Public Safety Partnership and Community Policing Grants (COPs)		
02-16	The Municipality filed the Financial Status Reports with amounts that do not agree with the general ledger. (Prior Report Finding Number 01-22)	-
Head Start		
02-17	Several of the Municipality's Head Start childcare centers did not have current fire and health department licenses and permits.	-
02-18	The Municipality's Head Start childcare centers lack adequate property records.	-
HIV Emergency Relief Project Grants		
02-19	The Municipality filed a Financial Status Report that does not agree with the Municipality's general ledger. (Prior Report Finding Number 01-28)	-
Workforce Investment Act (WIA)		
02-20	The Municipality paid compensation to an employee not performing duties related to the WIA program.	-
02-21	The Municipality has not implemented policies and procedures to distribute incentives to program participants.	-
02-22	The Municipality is not maintaining adequate controls over property and equipment items acquired by the WIA Program.	-
02-23	Accounting records do not provide sufficient information to determine compliance with the certifying requirement.	-
02-24	The cumulative financial reports submitted to the FRHRODC do not agree with the accounting records.	-
Total		\$ 41,901

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART III

**FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON THE AUDIT
OF THE BASIC FINANCIAL STATEMENTS**

INTRODUCTION TO FINDINGS AND RECOMMENDATIONS

Background:

The findings and recommendations as defined in Parts III and IV and summarized in the schedule below, have been reviewed with representatives of the Municipality. The Municipality's corrective action plans have been discussed with us and are included in Part VII.

The following findings and recommendations often refer to the provisions of various authoritative documents, laws and regulations that were effective for the year ended June 30, 2002. The reference is to the documents at that date and does not reflect any changes resulting from subsequent amendments of the documents, laws and regulations. To avoid repeating their titles, following is the list of the documents with their respective titles and purposes, quoted in the findings and recommendations:

1. "OMB Circular A-87", - Circular A-87, issued by the Executive Office of the President, Office of Management and Budget, titled "Cost Principles for State and Local Governments," dated May 4, 1995 and further amended on August 29, 1997. This Circular Letter establishes the principles for determining the allowable costs of programs administered by state, local, and federally recognized Indian tribal governments under grants from and contracts with the federal government.
2. "OMB Circular A-102", - Circular A-102, (Revised), issued by the Executive Office of the President, Office of Management and Budget, titled "Grants and Cooperative Agreements with State and Local Governments," dated October 7, 1994 and further amended on August 29, 1997. This Circular Letter establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state, local, and federally recognized Indian tribal governments.
3. "OMB Circular A-133", - Circular A-133 as revised on June 30, 1997. This Circular Letter establishes uniform audit requirements for non-federal entities that administer federal awards and implements the Single Audit Act Amendments of 1996.
4. "The Act", - The Single Audit Act Amendments of 1996, Public Law 104-156, enacted on July 5, 1996, by the U.S. Congress. The Act was established to: a) promote sound financial management, including effective internal controls over federal awards; b) establish uniform requirements for audits of these programs; c) promote the efficient and effective use of audit resources; d) reduce burdens on auditees and e) ensure that the federal agencies and department's rely upon these audits.
5. "CFR" - This is the "Code of Federal Regulations" issued by the federal government. The CFR is a codification of the general and permanent rules published by the federal government. The code is divided into titles that represent broad areas subject to federal regulation. Each title is divided into chapters, which usually bear the name of the issuing agency, and is further subdivided into parts covering specific regulatory areas.
6. "Common Rule" - The Common Rule refers to the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" which establishes uniform administrative rules for Federal grants and cooperative agreements and subawards to State, local, and Indian Tribal governments.

7. "Basic Standards" - "Revised Regulation on Basic Standards for the Municipalities of Puerto Rico" approved by the Office of the Commissioner of Municipal Affairs. The Basic Standards were created under Article 19.011 of Law 81, enacted on August 30, 1991, "Autonomous Municipalities Law". It establishes the rules and operational standards applicable to the municipalities in relation to the accountability of funds, property and other financial and fiscal matters administered by the municipalities of Puerto Rico. Its main purpose is to allow for the efficient use and administration of the municipal operations.
8. "Municipalities Law" - The "Autonomous Municipalities Law", Law 81 of August 30, 1991, as amended, was enacted to establish standard rules and regulations regarding the creation, organization, administration, and functions of the municipal governments in Puerto Rico. It establishes the main guidelines and requirements that govern all the municipal functions and activities.

Corrective Action Plans:

The corrective action plans and responses to the findings and recommendations have been provided by the Municipality's representatives and reflect plans and responses as of March 31, 2003. These responses and corrective action plans were delivered to us after completion of our field work and, accordingly, our procedures with respect to such corrective action plans consisted of reading the Municipality's response and including them within the body of the Single Audit Report. Although a few of the responses may indicate that the supporting documentation is available for examination, the finding is not eliminated because such evidence was found after we concluded the field work and, accordingly, we did not examine the aforementioned supporting information.

Criteria

All findings in this report refer to exceptions to established federal and local laws. The applicable regulations to each major program are as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>	<u>Federal Regulations</u>	<u>Federal Regulations/ Administrative Plan</u>
Community Development Block Grants/Entitlement Grants	14.218	X	
HOME Investment Partnerships Program	14.239	X	
Housing Opportunities for Persons with AIDS	14.241	X	
Section 8 Housing Choice Vouchers	14.871		X
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856		X
Public Safety Partnership and Community Policing Grants (COPS)	16.710	X	
Workforce Investment Act (WIA)	17.255	X	
Community Services Block Grant	93.569		X
Head Start	93.600	X	
HIV Emergency Relief Project Grants	93.914	X	

Questioned Costs:

The audit of compliance with laws and regulations, and the audit of the basic financial statements of the Municipality resulted in the identification of questioned costs totaling \$41,901 for the year ended June 30, 2002. For those instances where costs were questioned, the specific cost has been identified in the findings reported in the following pages.

The Schedule of Findings and Questioned Costs presented in Part II, as listed in the table of contents, includes items arising from the Single Audit for the year ended June 30, 2002. Items that arose during the previous Single Audit that have yet to be resolved are included in Part V of this document. Questioned costs noted in the reports of federal auditors and proposed, or pending sanctions arising from programmatic reviews by federal agencies, if any, were reviewed to determine the nature of the item and its current status. This information was considered during the development of the current year's audit procedures. The final resolution of the items arising from other audits and reviews, as well as disposition of the questioned costs included in Part II, "Schedule of Findings and Questioned Costs," as listed in the table of contents, rests with the federal grantor agencies.

Reportable Conditions and Material Weaknesses:

The findings included in this report have been reported in accordance with the requirements of generally accepted government auditing standards (GAGAS), issued by the Comptroller General of the United States and Statements on Auditing Standards 60 and 74, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants. These standards require the communication of all reportable conditions regarding an entity's internal control.

Reportable conditions are those matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control over compliance, which could adversely affect the Municipality's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

Finding Number 02-01

Accounting and Finance Department

Topic Sentence

The Municipality incurred expenditures in excess of the level of funds appropriated and available. (Prior Report Finding Number 01-01)

Category

Compliance

Condition Found

During the course of our audit we found that the Municipality incurred in expenditures for the early retirement benefits of approximately \$3.6 million in excess of the amount appropriated according to the revised budget for the fiscal year ended June 30, 2002. As a result, the Municipality increased the accumulated deficit in the balance sheet, after providing reserves in the general fund, from approximately \$28.7 million to approximately \$32.3 million.

Criteria

Article 8.004 (b) of the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the appropriations for the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the Basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rests with the Finance Department.

Underlying Cause

This situation occurred because, although the Municipality included those employee benefits in the original budget, funds were inappropriately used for long-term obligations such as compensated absences, landfill closure, claims and judgments and others. Historically, such obligations have been budgeted on a pay-as-you-go basis without providing funding for their future liquidation.

Effect

The continued occurrence of this situation could result in possible significant limitations on available funds and the eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Known Questioned Costs

None

Recommendation

The Municipality's management should implement system controls to prevent expenditures in excess of revenues. In addition, management should review unencumbered balances for each appropriation. This will provide the Budgeting Division with the necessary information to prevent the issuance of purchase orders or contracts for which funds are not currently available.

Finding Number 02-02

Payroll and Personnel

Topic Sentence

The Municipality does not have adequate controls over payroll of employees working for federal programs.

Category

Internal Control

Condition Found

The Municipality does not have adequate controls that ensure that payroll and the related expenses charged to federal program accounts are properly supported.

In testing the allowability of payroll costs, we found that accounting records are not reconciled to payroll registers or any other report such as listings of employees. In addition, existing payroll reports does not identify sources or related funds of federal programs being used to pay for salaries therein.

Criteria

Article 8.010, Section (c) of the Municipalities Law states that the accounting system should provide:

1. Complete results of the Municipalities operations,
2. Proper and necessary financial information for the efficient administration of the Municipality,
3. Effective controls and the accountability of all the funds, property and other municipal assets, and
4. Information necessary for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Underlying Cause

The Municipality's management has not established procedures to properly account for the payroll transactions in the accounting information system.

Effect

The Municipality's failure to have adequate controls over payroll transactions including, but not limited to, reports and reconciliations may result in payments to employees who are not working or performing duties directly related to the federal program from which they are being paid. Due to the large number of employees that work and are paid with federal program funds, this situation may expose the Municipality to cost disallowances and actions from the awarding agencies.

Known Questioned Costs

None

Recommendation

Payroll registers by program should be generated and reconciled, on a monthly basis, to the corresponding federal program accounts.

As an alternate reconciling procedure, a combined payroll register should clearly identify source of funds used to pay for each employee's salary. In this case, a reconciliation per program will be still necessary to support federal program accounts' balances.

Such reconciliation procedures will ensure that payroll and the related expenses are supported by the listing of employees working and performing duties directly related to the federal programs.

Finding Number 02-03

Payroll and Personnel

Topic Sentence

The Municipality does not prepare periodic employee certifications. (Prior Report Finding Number 01-06)

Category

Internal Control/Compliance

Condition Found

The Municipality does not perform periodic employee certifications to ensure that the employees worked solely on a particular federal program during a specified period.

Criteria

As per OMB Circular A-87, Attachment B, section 11(h)(3) charges for salaries and wages of employees that work solely on a single federal award or cost objective, should be supported by periodic certifications stating that the employees worked solely on that particular federal program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first knowledge of the work performed by the employee.

Underlying Cause

The Municipality's management has not implemented proper control activities to ensure that the required certifications are obtained from employees and included in the respective human resource records.

Effect

The salaries of employees that work for a particular federal financial assistance program might be charged to other programs resulting in unallowable costs.

Known Questioned Costs

None

Recommendation

The Municipality's management should revise its internal control procedures to include obtaining periodic employee certifications that employees worked solely on a particular federal program. For employees that work on several financial assistance programs, certifications as to what programs they work for, should be obtained and their salaries allocated accordingly.

Finding Number 02-04

Property Management

Topic Sentence

The Municipality does not perform an annual property inventory. (Prior Report Finding Number 01-03)

Category

Compliance

Condition Found

The Municipality is not performing periodic physical inventories of its property and equipment. Accordingly, the Municipality's internal control over property and equipment is not designed to effectively account for its property since it does not allow for the reconciliation of detailed property records with the general ledger.

According to the existing records of the Municipality, the cost of the property owned by the Municipality is approximately \$422.9 million as of June 30, 2002.

Criteria

Chapter VII, Section 22 of the Basic Standards establishes that property physical inventories should be performed on an annual basis, as part of the overall property management control of the Municipality and differences, if any, should be investigated and reconciled.

Underlying Cause

The Property Division has not enforced the requirement for the departments to both perform a property inventory and to ensure the proper accountability of assets.

Effect

There is a significant risk of unauthorized use or disposition because there are no controls to ensure accountability of assets by department/division. This inadequate property control may expose the Municipality to cost disallowance by the federal government for lost or stolen federal property acquired with federal funds.

Known Questioned Costs

None

Recommendation

A physical inventory of the Municipality's property should be performed as soon as possible for all departments and all differences should be investigated, adjusted and reconciled with the property recorded on the subsidiary ledgers. Furthermore, the Mayor should issue an executive order to require compliance with this requirement.

Finding Number 02-05

Federal Funds Administration

Topic Sentence

The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds. (Prior Report Finding Number 01-05)

Category

Compliance

Condition Found

In testing procurement, suspensions and debarments, we were not able to find evidence indicating that the Municipality performs procedures to assure that the individuals and entities that receive contracts or sub-awards are not suspended or debarred from participation in federal programs.

Criteria

As per OMB Circular A-102, subpart C, section .35, Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension". Agencies shall establish procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the non-procurement debarment and suspension common rule.

Underlying Cause

The Municipality has no policies and procedures for the effective use of the List of Parties Excluded from federal procurement or non-procurement programs to assure that they do not award assistance to listed parties.

Effect

As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality should amend their procurement procedures and include a step to verify whether or not the individual or entity is on the list of parties excluded from federal participation in procurement and non-procurement programs. The Municipality should also require the entities or individuals to submit a certification stating that they are not suspended or debarred.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART IV

**FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO FEDERAL PROGRAMS**

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

COMMUNITY DEVELOPMENT BLOCK GRANT - CFDA # 14.218

The primary objective of the Community Development Block Grant (CDBG) Entitlement Program (large cities) (24 CFR part 570 subpart D) and HUD-Administered Small Cities Programs (24 CFR part 570 subpart F) is to develop viable urban communities by providing decent housing, a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the CDBG federal financial assistance program.

Finding Number 02-06

Program: Community Development Block Grant – CFDA # 14.218

Topic Sentence

An inaccurate financial report was submitted to Federal Government. (Prior Year Finding Number 01-07)

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed the CO4PR26-CDBG Financial Summary that does not agree with the general ledger as follows:

<u>Total Expenditures Reported</u>	<u>Total Expenditures Per General Ledger</u>	<u>Difference</u>
\$14,616,978	\$13,695,976	\$921,002

Criteria

As stated in 24 CFR 570.489 and as specified in 24 CFR 85.20 (b)(1), 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 subgrant.

Underlying Cause

The Municipality's management has stated that this report was prepared from the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

Effect

The continuous occurrence of this situation inhibits the federal awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None.

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between numbers kept at the federal programs and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Finding Number 02-07

Program: Community Development Block Grant – CFDA # 14.218

Topic Sentence

The Municipality does not have adequate controls over property and equipment acquired with federal funds. (Prior Report Finding Number 01-08)

Category

Internal Control/Compliance

Compliance Requirement

Equipment and Real Property Management

Condition Found

As discussed in finding 02-04, due to the Municipality's deficient property records, we were unable to perform our tests of real property and equipment management applicable to the CDBG program.

Criteria

As stated in 24 CFR 85.32(b) grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. In addition, effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Underlying Cause

The Municipality has inadequate internal control procedures to prepare adjustments for recording transactions in the fixed assets subsidiary ledger.

Effect

The continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds. In addition, sanctions could be imposed by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

In addition, the Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.

Finding Number 02-08

Program: Community Development Block Grant – CFDA # 14.218

Topic Sentence

The Municipality does not have adequate controls over processing of disbursements financed with federal funds.

Category

Internal Control/Compliance

Compliance Requirement

Allowable Costs/Cost Principles

Condition Found

In testing program transactions, we noted that the invoice no. 214 from an external consultant was based on work hours per program as follows:

<u>Program</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
Section 8	60	\$ 100	\$6,000
HOME	33	100	3,300
HOPWA	9	100	900
CDBG	98	100	9,800

Total hours were charged to the CDBG program. Thus, it resulted in an overcharge of \$10,200 to the CDBG program.

Criteria

OMB A-87, Attachment A, section C(3)(c), states that any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Underlying Cause

The above exception results from the lack of an adequate internal control which could detect and correct on a timely basis instances where controls are not being followed.

Effect

This condition could result in the reimbursement of CDBG funds to the awarding agency for those disbursements that were not allowable. Thus, unallowable costs will be considered as questioned costs.

Known Questioned Costs

\$10,200

Recommendation

Internal control procedures should be followed in order to avoid errors or irregularities. Payment documents and related supporting documentation should be thoroughly reviewed before they are recorded and processed for payment.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

HOME INVESTMENT PARTNERSHIPS PROGRAM - CFDA # 14.239

The objectives of the Home Investment Partnerships (HOME) Program include: expanding the supply of decent and affordable housing, particularly housing for low and very low-income Americans; strengthening the abilities of State and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and extending and strengthening partnerships among all levels of government and the private sector, including for-profit and not for profit organizations, in the production and operation of affordable housing (24 CFR section 92.1).

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HOME federal financial assistance program.

Finding Number 02-9

Program: Home Investment Partnerships (HOME) Program - CFDA # 14.239

Topic Sentence

Controls over eligibility of HOME participants are ineffective.

Category

Internal Control/Compliance

Compliance Requirement

Eligibility

Condition Found

Of the 221 program participants receiving homeownership assistance for the year 2001-02, we selected 25 participants (11%) to review their files. One out of the 25 participants (4%) was deemed ineligible to participate of the HOME program since their annual income exceeded HOME income limit as shown below:

<u>Family Members</u>	<u>Annual Income</u>	<u>HOME Maximum Annual Income</u> *	<u>Granted Assistance</u>
2	\$ 18,424	\$ 18,300	\$ 30,000

* As per HOME income limits published for the 2002 fiscal year. They vary depending on the family composition.

Criteria

As stated in 24 CFR 92.217, each participating jurisdiction must invest HOME funds made available during a fiscal year so that with respect to homeownership assistance, 100 percent of these funds are invested in dwelling units that are occupied by households that qualify as low-income families at the time of occupancy or at the time funds are invested, whichever is later.

Underlying Cause

This condition was caused by an inadequate review of the eligibility determinations to ascertain that participants requesting HOME program assistance comply with all the eligibility requirements.

Effect

The fact that the Municipality is giving assistance to ineligible participants exposes the Municipality to cost disallowances.

Known Questioned Costs

\$30,000

Recommendation

The Municipality should promptly remit to the US Department of Housing and Urban Development the known questioned costs amounting to \$30,000. In addition, management review procedures must be improved to ensure participant eligibility is adequately determined.

Finding Number 02-10

Program: Home Investment Partnerships (HOME) Program - CFDA # 14.239

Topic Sentence

The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOME Program.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Condition Found

In testing property and equipment, we selected four items amounting to \$23,731. Upon examination, we noted the subsidiary ledger did not include important information such as the condition of the property and, when applicable, any disposition data such as date of the disposal and the sales price.

Criteria

The foregoing condition is not in compliance with 24 CFR 85.32 (d)(1), which establishes that property records must be maintained that include a description of the property, a serial or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use, and condition of the property, and any ultimate disposition data including the date of the disposal and the sales price of the property.

Underlying Cause

The Municipality has not ensured that the property records comply with those minimum requirements due to the lack of understanding of the applicable Federal regulations.

Effect

The continued occurrence of this situation may cause the awarding agency to disallow costs related to equipment that is inappropriately managed. Also, it could adversely affect the Municipality's ability to be awarded with future grants.

Known Questioned Costs

None.

Recommendation

The Municipality should reorganize property procedures and establish adequate controls to be followed by all property divisions. Property records should include the required information for equipment purchased with Federal funds to improve accountability, control and to detect possible loss or theft of property.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

HOUSING OPORTUNITIES FOR PERSONS WITH AIDS - CFDA # 14.241

The Housing Opportunities for Persons with AIDS (HOPWA) Program is designed to provide States and localities with resources and incentives to devise long term strategies for meeting the housing needs of persons with acquired immunodeficiency syndrome (AIDS) or related diseases and their families (24 CFR section 574.3).

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HOPWA federal financial assistance program.

Finding Number 02-11

Program: Housing Opportunities For Persons With Aids - CFDA # 14.241

Topic Sentence

The Municipality did not obtain a certification from its subrecipients indicating that their organization and its principals were not suspended or debarred.

Category

Compliance

Compliance Requirement

Suspension and Debarment

Condition Found

In testing procurements, suspensions, and debarments, we were not able to obtain evidence indicating that the Municipality obtains the required suspension and debarment certifications for certain subawards and covered contracts. The subrecipients and corresponding total transactions evaluated in other testing areas were as follows:

Municipio Rio Grande
Municipio Naguabo
Municipio Trujillo

Municipio de Fajardo
Municipio Toa Baja

Criteria

As per OMB A-102, Subpart C, section .35, Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension". Agencies shall establish procedures for the effective use of the list of Parties Excluded from federal procurement or non - procurement programs to assure that they do not award assistance to listed parties in violation of the executive order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and sub grantees (including contractors) at any tier do not make awards in violation of the non-procurement debarment and suspension common rule. Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

Underlying Cause

The Municipality does not have an effective system which requests and obtains the required suspension and debarment certifications for all subawards and covered contracts.

Effect

As a result of this deficiency, the Municipality could have procured goods or services from organizations and individuals that are suspended or debarred which could result in cost disallowances by the federal awarding agency.

Known Questioned Costs

None

Recommendation

The Municipality should extend their procedures to the other municipalities, thus requiring that the entities or individuals submit a certification stating that they are not suspended or debarred. This could be accomplished by requesting that the municipalities include this information as part of one of the following:

- 1) Within the information provided on the proposal,
- 2) As an integral part of the contract, or
- 3) As a separate statement to that effect.

Finding Number: 02-12

Program: Housing Opportunities For Persons With Aids (HOPWA) - CFDA # 14.241

Topic Sentence

The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOPWA Program.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Condition Found

In testing property and equipment, we selected three items amounting to \$15,442. Upon examination, we noted the subsidiary ledger did not include important information such as the condition of the property and, when applicable, any disposition data such as date of the disposal and the sales price.

Criteria

The foregoing condition is not in compliance with 24 CFR 85.32 (d)(1), which establishes that property records must be maintained that include a description of the property, a serial or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use, and condition of the property, and any ultimate disposition data including the date of the disposal and the sales price of the property.

Underlying Cause

The Municipality has not ensured that the property records comply with those minimum requirements due to the lack of understanding of the applicable Federal regulations.

Effect

The continued occurrence of this situation may cause the awarding agency to disallow costs related to equipment that is inappropriately managed. Also, it could adversely affect the Municipality's ability to be awarded with future grants.

Known Questioned Costs

None.

Recommendation

The Municipality should reorganize property procedures and establish adequate controls to be followed by all property divisions. Property records should include the required information for equipment purchased with Federal funds to improve accountability, control and to detect possible loss or theft of property.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

**LOWER INCOME HOUSING ASSISTANCE PROGRAM
SECTION 8 MODERATE REHABILITATION - CFDA # 14.856**

The objective of the Section 8 rental assistance programs is to help eligible low-income families or individuals obtain decent, safe, and sanitary housing through a system of rental subsidies. Under this project-based cluster, the rental subsidy is tied to a specific unit and when a family moves from the unit, it has no right to continued assistance.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Lower Income Housing Assistance federal financial assistance program.

Finding Number 02-13

Program: Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation – CFDA# 14.856

Topic Sentence

The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger. (Prior Report Finding Number 01-18)

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed the HUD Form 52681 that does not agree with the general ledger as follows:

<u>Program</u>	<u>Expenditures per Report</u>	<u>Expenditures per General Ledger</u>	<u>Difference</u>
Moderate 1	\$ 918,709	\$ 927,643	\$ (8,934)
Moderate 2	\$ 239,428	\$ 243,478	\$ (4,050)
Moderate 3	\$ 1,944,408	\$ 1,947,964	\$ (3,556)
Moderate 4	\$ 247,912	\$ 249,775	\$ (1,863)
Moderate 5	\$ 299,024	\$ 307,128	\$ (8,104)

Criteria

As per OMB Circular A-102, Subpart C, section .20(b)(1), 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 subgrant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. As per the reconciliation provided by the Municipality differences are due to certain expenditures that were recorded subsequently by the Municipality but not taken into consideration by the program.

Effect

The continuous occurrence of this situation prevents the awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between numbers kept at the federal programs and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

SECTION 8 HOUSING CHOICE VOUCHERS – CFDA# 14.871

The Housing Choice Voucher Program (HCVP) provides rental assistance to help very low-income families afford decent, safe, and sanitary rental housing. The HCVP Program is administered by local public housing agencies (PHAs) authorized under State law to operate housing programs within an area or jurisdiction. The PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent (a housing assistance payment (HAP)) on behalf of the family.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Section 8 Housing Choice Vouchers federal financial assistance program.

Finding Number 02-14

Program: Section 8 Housing Choice Vouchers – CFDA# 14.871

Topic Sentence

The Municipality did not ensure that owners of program units failing to meet Housing Quality Standards (“HQS”) corrected deficiencies within 30 calendar days or within any specified extension approved by them.

Category

Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In connection with our special test of HQS enforcement, we found that in three out of 25 (12%) program units selected for testing the Municipality failed to follow up on the correction of deficiencies within the 30-day limitation prescribed by Federal regulations. The cases in noncompliance follow:

<u>Case No.</u>	<u>Inspection Date</u>	<u>Reinspection Date</u>	<u>Noncompliance Days</u>
7004	3/20/2002	4/23/2002	4
7169	10/3/2001	11/14/2001	12
490	3/19/2002	4/29/2002	11

Criteria

As stated in 24 CFR section 982.404 (a)(3), the PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

Underlying Cause

The Municipality’s management is currently implementing procedures to ensure compliance, in full, with housing quality standards enforcement regulations.

Effect

The Municipality might be making payments for sub-standard housing units and participants might be adversely affected in the benefits they are entitled to receive.

Known Questioned Costs

None

Recommendation

The Municipality should continue enhancing its housing quality standards enforcement procedures to ensure that timely follow up on failed inspections is performed and, thus, to effectively monitor compliance with housing quality standards enforcement regulations.

Finding Number 02-15

Program: Section 8 Housing Choice Vouchers – CFDA# 14.871

Topic Sentence

The Municipality is not maintaining adequate controls over property and equipment items acquired by the Section 8 Housing Choice Vouchers Program.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Condition Found

In testing property and equipment, we selected 20 items amounting to \$30,355. Upon examination, we noted the following:

- One out of the 20 (5%) items selected for testing was missing from the Municipality's premises. No indication or documentation approving and evidencing any property disposal was also found with respect to this asset. The machine, an IBM external tape driver, was acquired in 1992 and has an acquisition cost of \$1,701.
- The subsidiary ledger did not include important information such as the condition of the property and, when applicable, any disposition data such as date of the disposal and the sales price.

Criteria

The foregoing condition is not in compliance with 24 CFR 85.32 (d), which establishes that:

- Property records must be maintained that include a description of the property, a serial or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use, and condition of the property, and any ultimate disposition data including the date of the disposal and the sales price of the property.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Underlying Cause

The Municipality has not ensured that the property records comply with those minimum requirements due to the lack of understanding of the applicable Federal regulations.

Effect

The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and the lack of adequate property and equipment records.

Known Questioned Costs

\$1,701

Recommendation

The Municipality should review the procedures for disposals, transfers and sales of fixed assets to ensure compliance with property standards.

The Municipality should also reorganize all other property procedures and establish adequate controls to be followed by all property divisions. Property records should include the required information for equipment purchased with federal funds to improve accountability, control and to detect possible loss of theft of property.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS – CFDA# 16.710

The Community Oriented Policing Services (COPS) Grant Program provides grants to policing agencies to add police officers or sheriff's deputies to America's neighborhood streets and advance community policing nationwide, with emphasis on reducing levels of violence, the fear of crime and social disorder through problem solving tactics and community-policing partnerships.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the COPS federal financial assistance program.

Finding Number 02-16

Program: Public Safety Partnership and Community Policing Grants – CFDA# 16.710

Topic Sentence

The Municipality filed the Financial Status Reports with amounts that do not agree with the general ledger. (Prior Report Finding Number 01-22)

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed financial status reports that does not agree with the general ledger as follows:

<u>Period</u>	<u>Amount per Report</u>	<u>Amount Per General Ledger</u>	<u>Difference</u>
7/01/01-9/30/01	\$1,378,012	\$1,397,253	\$ 19,241
10/1/01-12/31/01	1,399,297	486,515	(912,782)
1/1/02-3/31/02	1,307,317	2,567,547	1,260,230
4/1/02-6/30/02	980,986	620,155	<u>(360,831)</u>
Total			<u>\$ 5,858</u>

Criteria

As per OMB Circular A-102, Subpart C, section .20(b)(1), 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 subgrant.

Underlying Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to either certain expenditures that were recorded by the program but not yet recorded by the Municipality or certain expenditures that were recorded subsequently by the Municipality but not taken into consideration by the program.

Effect

The continuous occurrence of this situation inhibits the awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between amounts` at the federal program level and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

HEAD START - CFDA# 93.600

The objectives of the Head Start and Early Head Start programs are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged preschool children (ages 3 to 5) and infants and toddlers (birth through age 3) so that the children will attain school readiness. Parents receive social services and participate in various decision-making processes related to the operation of the program.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Head Start federal financial assistance program.

Finding Number 02-17

Program: Head Start – CFDA# 93.600

Topic Sentence

Several of the Municipality's Head Start childcare centers did not have current fire and health department licenses and permits. (Prior Report Finding Number 01-27)

Category

Internal Control/Compliance

Compliance Requirement

Special Tests and Provisions

Condition Found

In testing compliance and internal control over the licensing requirement, we selected 15 centers. Our test revealed that nine out of the 15 centers tested (60%) were not in compliance as follows:

Centers	Department of Health	Fire Department	ARPE (Puerto Rico Rules and Permits Agency)
La Perla		x	
Munoz Rivera	x	x	
Las Margaritas		x	
Einstein	x		x
Israel II		x	
Villa Granada		x	x
Barrio Dulce	x	x	
Choferes	x	x	
Tortugo	x	x	

Criteria

As per 45 CFR section 1306.30(c) the facilities used by Early Head Start and Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing. State laws and regulations require all Head Start childcare centers to be licensed by the fire and health departments.

Underlying Cause

This situation arises because the responsibility for obtaining the required licenses rests with each center and the Municipality's Head Start program does not adequately monitor compliance with the required licensing requirements.

Effect

In general, failure to monitor centers may result in the possibility of not preventing, or detecting and correcting, on a timely basis, significant instances of noncompliance that may expose the Municipality to cost disallowances, such as noncompliance with other federal, State and contract requirements. In specific, noncompliance with the required licensing requirements could result in sanctions and disallowed costs by the federal awarding agency. In addition, non compliance with health and fire licensing requirements pose a serious threat to the children obtaining services in the Head Start centers given that the center might not meet the state's minimum safety standards which could result in health and fire hazards in any unforeseeable situation that might occur during the day to day operations of the center.

Known Questioned Costs

None

Recommendation

The Municipality should obtain all required licenses immediately or close the centers until such licenses are obtained. In addition, the Municipality's Head Start program should appoint an employee to be designated as the Head Start program-licensing officer. The licensing officer should oversee compliance with all applicable requirements of the Head Start centers and act as a liaison between the centers and the licensing agencies in order to ensure that all centers are licensed at all times.

The Municipality's management should also conduct periodic monitoring of all work performed by the licensing officer as an independent check in order to ensure that licensing requirements are met for all centers at all times. In addition, periodic quality control visits should be made to the centers in order to ensure that applicable requirements are met throughout the year and not only during the licensing process.

Finding Number 02-18

Program: Head Start – CFDA# 93.600

Topic Sentence

The Municipality's Head Start childcare centers lack adequate property records.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Condition Found

The Municipality is not maintaining adequate property records to provide all the information required by federal regulations of the Head Start Program. There are not inventory of property held since year 2000 by the Program. Information as to property number, item description, quantity, acquisition cost and serial number cannot be provided for the three centers selected. Therefore, required information per Common Rule paragraph 32(d)(1) and (2) is missing.

Criteria

The Common Rule 32, (d)(1), and (d)(2) "Equipment", requires that property records shall include, in addition to the information maintained by the Head Start Programs' records, the source of property, acquisition date, percentage of federal participation in the cost of the property, location, use and condition of the property, any ultimate disposition data such as date of disposal and sale price. In addition, it also requires a physical inventory to be taken at least once every two years.

In addition, the Municipality is not in compliance with 45CFR 1301.13, which requires that the grantee and delegate agencies must ensure that appropriate internal controls are established and implemented to safeguard Federal funds.

Underlying Cause

This situation occurs because the Municipality has not ensured that the property record information complies with the minimum requirements established by the Common Rule.

Effect

The failure to have adequate and complete documentation about property acquired with program funds may result in assets being misappropriated or disposed of without management's authorization. Accordingly, the federal grantor may disallow costs in the amounts of property lost or stolen due to inadequate control or accountability.

Known Questioned Costs

None

Recommendation

The Head Start Program should include the required information regarding federally purchased equipment to improve accountability, control and to prevent loss or theft of property.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

HIV EMERGENCY RELIEF PROJECT GRANTS – CFDA# 93.914

The objective of this program is to improve access to a comprehensive continuum of high-quality community-based primary medical care and support services in metropolitan areas that are disproportionately affected by the incidence of Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS). The statute refers to both persons infected with HIV and those who have clinically defined AIDS.

Emergency financial assistance, in the form of *formula-based funding* and supplemental *project-based funding*, is provided to eligible metropolitan areas (EMAs) to develop, organize, and operate health and support services programs for infected individuals and their caregivers. The supplemental grants are discretionary awards and are awarded, following competition, to EMAs that demonstrate severe need beyond that met through the formula award. They must also demonstrate the ability to use the supplemental amounts quickly and cost-effectively. Other criteria, contained in annual application guidance documents, may also apply. All EMAs currently receiving formula assistance are also receiving supplemental assistance.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the HIV Emergency Relief Project Grants federal financial assistance program.

Finding Number 02-19

Program: HIV Emergency Relief Project Grants – CFDA# 93.914

Topic Sentence

The Municipality filed a financial status report that does not agree with the Municipality’s general ledger. (Prior Report Finding Number 01-28)

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

During our reporting tests, we found that the Municipality filed a final financial status report that does not agree with the general ledger as follows:

<u>Grant Period</u>	<u>Total Outlays Per Report</u>	<u>Total Outlays Per General Ledger</u>	<u>Difference</u>
3/1/01-2/28/02	\$14,181,746	\$13,858,283	\$323,463

Criteria

As per OMB Circular A-102, Subpart C, section .20(b)(1), 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.

Underlying Cause

Difference is due to indirect costs that were reported but not yet recorded by the Municipality in the Program’s accounts.

Effect

The continuous occurrence of this situation inhibits the federal awarding agency from monitoring the programs financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of financial reports.

Known Questioned Costs

None

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between amounts recorded at the federal program level and numbers recorded in the general ledger in order to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

WORKFORCE INVESTMENT ACT (WIA) – CFDA# 17.255

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reformed system is intended to be customer-focused, to help Americans access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous training, education and employment programs into a single, customer-friendly system in each community so that the customer has access to a seamless system of workforce investment services.

There are three program categories under Subtitle B of Title I: Adult, Dislocated Worker and Youth Activities. Programs for adults and dislocated workers seek to improve employment, retention, and earnings of WIA participants and increase their educational and occupational skill attainment, thereby improving the quality of the workforce, reducing welfare dependency, and enhancing national productivity and competitiveness. Subtitle B Youth activities seek to increase the attainment of basic skills, work readiness or occupational skills, and secondary diplomas or other credentials.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Workforce Investment Act financial assistance program.

Finding Number 02-20

Program: Workforce Investment Act (WIA) – CFDA# 17.255

Topic Sentence

The Municipality paid compensation to an employee not performing duties related to the WIA program.

Category

Internal Control

Compliance Requirement

Allowable Costs/Cost Principles

Condition Found

In testing controls of the disbursement procedures, we selected 20 WIA disbursements made during the fiscal year 2001-02 to verify that the transactions were for an allowable activity and for an allowable cost. We noted that compensation was paid to one employee who does not work, or does not perform duties for the program. Employee worked and performed duties for the Welfare-to-Work (WtW) Grants to States and Localities Program. Following are the details of the exception:

<u>Employee's Social Security Number</u>	<u>Account Number</u>	<u>Payroll Period Ended</u>	<u>Monthly Gross Salary</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Net Pay</u>
108-26-8562	6104-601315-05	02/28/02	\$ 1,356	2787858	02/28/02	\$ 341

Criteria

The OMB Circular A-87, Attachment A, section E(2), states that typical direct costs chargeable to Federal awards are among others, compensation of employees for the time devoted and identified specifically to the performance of those awards.

Underlying Cause

All employees performing duties for the WtW Program are paid by the Municipality through WIA payroll accounts. Twice a year an adjustment entry is performed by the Program's Fiscal Unit to reimburse WIA for funds disbursed for WtW payroll expenditures, rent, and utilities.

Effect

The disbursement of funds that are not in accordance with program regulations could result in instances of noncompliance and questioned costs.

Known Questioned Costs

No costs were questioned given an adjustment entry is made to reimburse WIA Program for the WtW costs disbursed by and charged to WIA Program in prior months.

Recommendation

We recommend that an adjustment entry and reimbursement of funds to WIA for WtW employee compensation, rent, and utilities be performed on a monthly basis and that the adjustment be well documented. Furthermore, we recommend that employees performing duties under the WtW Program be paid from the WtW accounts.

Finding Number 02-21

Program: Workforce Investment Act (WIA) – CFDA# 17.255

Topic Sentence

The Municipality has not implemented policies and procedures to distribute incentives to program participants.

Category

Internal Control

Compliance Requirement

Allowable Costs/Cost Principles

Condition Found

In testing controls of the disbursement procedures, we selected 20 WIA disbursements made during the fiscal year 2001-02 to verify that the transactions were for an allowable activity and for an allowable cost. We noted that incentives were paid to one of the Program's participants. Although the WIA Program allows for supportive services to be paid to participants, the Municipality has no written policies regarding daily incentive amounts to be paid to participants. Following are the details of the transaction examined:

<u>Account Number</u>	<u>Voucher No.</u>	<u>Attendance (in hours)</u>	<u>Incentive per Hour</u>	<u>Check</u>		
				<u>No.</u>	<u>Date</u>	<u>Amount</u>
6104-02-60131504-1401-6303	078-WIA	36.0	\$ 4.00	76037	07/23/01	\$ 144.00

Criteria

The OMB Circular A-87, Attachment A, section C(1)(e), states that to be allowable under Federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

Underlying Cause

Lack of adequate written policies regarding the payment of incentives to participants under the WIA Youth Activities Program.

Effect

Lack of such policies and procedures could prevent WIA funds be distributed evenly between all program participants.

Known Questioned Costs

None.

Recommendation

We recommend that written policies be developed regarding payment of supportive services to participants. These written policies will assist the Program to ensure that costs are necessary, reasonable, conform to any limitations, and are treated consistently.

Finding Number 02-22

Program: Workforce Investment Act (WIA) – CFDA# 17.255

Topic Sentence

The Municipality is not maintaining adequate controls over property and equipment items acquired by the WIA Program.

Category

Internal Control/Compliance

Compliance Requirement

Equipment Management

Condition Found

In testing property and equipment, we selected 6 items amounting to \$28,541. Upon examination, we noted that in one out of the 6 (17%) items selected for testing, the subsidiary ledger did not include important information such as the acquisition date and cost of the property. As a matter of fact, we also noted that property records for most of the equipment acquired prior to fiscal year 2001-02 does not contain such vital information as required by federal regulations. Following are the details of the transaction examined:

<u>Purchase Order</u>			<u>Equipment</u>	<u>Property</u>
<u>No.</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>	<u>No.</u>
JTP-21805	08/17/01	\$ 3,010.00	Fax Machine	JTP-001244

Criteria

OMB Circular A-102, Subpart C, section .32(d)(1) and (d)(2) require property records to include, in addition to the information maintained by the WIA Programs' records, the source of property, acquisition date, percentage of federal participation in the cost of the property, location, use and condition of the property, any ultimate disposition data such as date of disposal and sale price. In addition, it also requires a physical inventory to be taken at least once every two years.

Underlying Cause

The WIA Program has not developed adequate procedures over equipment management in order to fully comply with this requirement.

Effect

The failure to have adequate and complete documentation about property acquired with program funds may result in assets being misappropriated or disposed of without management's authorization. Accordingly, the federal grantor may disallow costs in the amounts of property lost or stolen due to inadequate control or accountability.

Known Questioned Costs

None.

Recommendation

We recommend that all required information, as specified in the OMB Circular A-102, be included on the property records. Furthermore, efforts should be made to obtain the necessary information for equipment acquired prior to fiscal year 2001-02. The lack of vital information on property records could result in noncompliance during a Single Audit.

Finding Number 02-23

Program: Workforce Investment Act (WIA) – CFDA# 17.255

Topic Sentence

Accounting records do not provide sufficient information to determine compliance with the earmarking requirement.

Category

Internal Control

Compliance Requirement

Earmarking

Condition Found

During the performance of our earmarking requirement tests, we noted that the WIA program did not comply with the required 30 percent of disbursements for out-of-school youth services as follows:

- Out-of-school expenditures for WIA youth activities reported in the monthly financial report submitted to the Puerto Rico Human Resources and Occupational Development Council (PRHRODC) were based on budgeted, or projected amounts, rather than actual expenditures. As a result, earmarking compliance could be erroneously stated and reported as shown below:

Youth Service Type	Budget	%	Actual Cumulative Expenditures	Reported Earmarking Distribution for the 10-Month Period ended April 30, 2002 Based on Budgeted Amounts
Out-of-school youth	\$ 2,099,268	59%	\$ 1,655,673	\$ 976,847
In-school youth	<u>1,458,814</u>	41%		<u>678,826</u>
Totals	<u>\$ 3,558,082</u>			<u>\$ 1,655,673</u>

- Expenditures for both out-of-school and in-school youth were grouped as one and accounted for in a single account. As a consequence, tracking could not be maintained over the type and amount of expenditures that were charged against each federal grant award account.

We also selected 20 WIA disbursements made during the fiscal year 2001-02 to verify their classification between youth and adult initiatives in meeting such minimum percentage. We noted that for two out of twenty transactions selected for examination (10%), incentives were paid to a participant through the account for WIA youth activities when the participant was determined to be eligible as an adult. Following are the details of the transactions examined:

Account Number	Voucher	Check		
	No.	No.	Date	Amount
6104-02-60131504-1401-630	880-WIA	158754	03/21/02	\$ 80.00
6104-02-60131504-2401-630	170-WIA	81207	08/24/01	52.50

Criteria

20 CFR 664.320 states that 30 percent of the Youth Activity funds allocated to the local areas, except for the local area expenditures for administration, must be used to provide services to out-of-school youth.

OMB Circular A-102, Subpart C, section .20(a) states that fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

Underlying Cause

The Municipality and WIA have not established adequate procedures over the earmarking requirement in order to fully comply with Program regulations.

In addition, there is an apparent confusion with regards to the age of the participants between eighteen and twenty-one years old with a high school diploma or its equivalent. Such participants are determined to be eligible as adults but are paid from the WIA Youth Activities Program.

Effect

The lack of segregation of expenditures between services to out-of-school and in-school youth neither allow to ensure compliance with the earmarking requirement nor permit to evaluate that compliance through an audit or review.

Also, the inability of the Municipality to meet the percentages required could lead to the loss of funds due to material noncompliance with the percentage requirements established by federal regulations.

Known Questioned Costs

None.

Recommendation

We recommend that adequate procedures over earmarking requirements be established and constantly monitored.

In addition, we recommend a strict adherence to the Program's eligibility requirements and guidelines. According to the Program's eligibility determination requirements an adult must be 18 years of age or older and a person is eligible to receive services under the Youth Activities if they are between the ages of 14 and 21 at the time of enrollment and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment.

Finding Number 02-24

Program: Workforce Investment Act (WIA) – CFDA# 17.255

Topic Sentence

The cumulative financial reports submitted to the PRHRODC do not agree with the accounting records.

Category

Internal Control/Compliance

Compliance Requirement

Reporting

Condition Found

In verifying the accuracy and completeness of the reports prepared by the Municipality, we selected the cumulative financial report for the 10-month period ended April 30, 2002 and traced the program's cumulative outlays to the Municipality's accounting records. We noted that the amount reported as expenditures was incorrect as follows:

<u>Accounts / Description</u>	<u>Amount per Cumulative Financial Report Submitted to PRHRODC</u>	<u>Amount per Accounting Records</u>	<u>Over</u>
Administration	\$ 542,815	\$ 481,611	\$ 61,204
Programmatic Activities (for April, 2002 Period)	7,782,528	6,601,609	1,180,919
	<u>\$ 8,325,343</u>	<u>\$ 7,083,220</u>	<u>\$ 1,242,123</u>

In addition, no timely reconciliation is performed by the Program and/or the Municipality.

Criteria

Based on provisions of contract agreement between the HRODC and the Municipality, the WIA Program of the Municipality is required to submit to the HRODC a monthly cumulative expenditure report and is also required to maintain adequate fund accounting.

OMB Circular A-102, Subpart C, section .20(b)(2) states that grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Underlying Cause

In addition, the Program does not timely reconcile differences between the Program's financial monthly reports and the Municipality's accounting records.

Effect

Failure to report accurate information prevents the granting agency from monitoring the performance of the program's financial activities, assessing the achievements of the program and evaluating the expected grant award for the following years. At the same time, the Municipality could be exposed to significant adjustments to the grant already awarded.

Known Questioned Costs

None.

Recommendation

We recommend that adequate accounting records be developed to provide current, complete, and accurate data. It must include a general ledger and other records such as subsidiary ledgers.

In addition, reconciliations between Program and the Municipality accounting records should be performed on a monthly basis.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO
YEAR ENDED JUNE 30, 2002**

COMMUNITY SERVICES BLOCK GRANT (CSBG) – CFDA# 93.569

The objective of the Community Services Block Grant (CSBG) program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. CSBG can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

The CSBG program is administered at the Federal level by the Office of Community Services (OCS), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). CSBG funds are awarded to States, Territories, and Federally and State-recognized Indian tribes and tribal organizations. Funds are distributed in accordance with a pre-established formula after submission of an application to OCS and acceptance of that application as complete in accordance with statutory requirements. In turn, States subgrant the CSBG funds according to statewide formulae to designated community-based non-profit organizations (and, in special circumstances, public organizations) that plan, develop and implement, and evaluate local programs.

No findings were identified for this program.



San Juan
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Gerardo A. Rodríguez
Director de Finanzas

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The following schedule contains the finding number, title, questioned costs and status of each of the findings included in the schedule of findings and questioned costs relative to federal awards for the year ended June 30, 2001 as required by OMB Circular A-133.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2002

<u>Reference Number</u>	<u>Finding Description</u>	<u>Questioned Costs</u>	<u>Status</u>
Accounting and Finance Department			
01-01	The Municipality's deficient budgeting process has resulted in an accumulated deficit for all funds of \$46.7 million.	\$ -	Situation still prevails. Refer to Finding Núm. 02-01 and related Corrective Action Plan.
01-02	The Municipality does not have an adequate centralized system to monitor and evaluate the internal controls over federally funded programs.	-	Corrective Action plan was implemented to correct the situation.
01-03	The Municipality does not have an effective system to accurately account for the recording of fixed assets.	-	Situation still prevails. Refer to Finding Núm. 02-04 and related Corrective Action Plan.
01-04	The Municipality needs to improve accounting policies and procedures for inter-fund transactions.	-	Corrective Action plan was implemented to correct the situation.
01-05	The Municipality does not have procedures in place to verify the status of an entity as to suspensions and debarments when contracting services or procuring goods with federal	-	Situation still prevails. Refer to Finding Núm. 02-05 and related Corrective Action Plan.
01-06	The Municipality does not prepare periodic employee certifications.	-	Situation still prevails. Refer to Finding Núm. 02-03 and related Corrective Action Plan.
Community Development Block Grants/Entitlement Grants			
01-07	The Municipality filed the CO4PR26 - CDBG Financial Summary with expenditures that do not agree with the general ledger.	-	Situation still prevails. Refer to Finding Núm. 02-06 and related Corrective Action Plan.
01-08	The Municipality does not have adequate controls over property and equipment acquired with federal funds.	-	Situation still prevails. Refer to Finding Núm. 02-07 and related Corrective Action Plan.
Home Investment Partnerships Program			
01-09	The Municipality has not established subsidy-layering guidelines to ensure that HOME program funds are expended according to program regulations.	-	Corrective Action plan was implemented to correct the situation.
01-10	The Municipality does not document that HOME subsidized units do not exceed 95% of the median purchase price for the locality or the FHA mortgage limit.	-	Corrective Action plan was implemented to correct the situation.
01-11	The Municipality's HOME program did not perform housing quality inspections on subsidized units before they were occupied.	-	Corrective Action plan was implemented to correct the situation.
Housing Opportunities for Persons with AIDS			
01-12	The Municipality's Housing Authority does not perform housing inspections on a timely manner.	-	Corrective Action plan was implemented to correct the situation.
01-13	The Municipality did not monitor subrecipients of HOPWA funds.	-	Corrective Action plan was implemented to correct the situation.

**Lower Income Housing
Assistance Program-Section 8
Moderate Rehabilitation**

01-14 The Municipality did not verify one participant's income as required by federal regulations.
 01-15 The Municipality could not locate several participant files.
 01-16 The Municipality's Housing authority could not demonstrate that housing inspections are performed as part of the annual re-certification process.
 01-17 The Municipality made payments for ten months after a rental unit was vacated.
 01-18 The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger.

12,804 Corrective Action plan was implemented to correct the situation.
 14,484 Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Situation still prevails. Refer to Finding Núm. 02-13 and related Corrective Action Plan.

**Section 8 Housing Choice
Vouchers**

01-19 The Municipality's Housing Authority could not demonstrate that participants admitted into the program during the fiscal year ended June 30, 2001 were selected from the waiting list.
 01-20 The Municipality's Housing Authority did not document the required reasonable rent determination before executing a new participant lease.
 01-21 The Municipality's Housing Authority does not keep records of failed inspections as a result of re-certifications or tenant complaints or of the timely resolution of the problems

- Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.

**Public Safety Partnership
and Community Policing**

Grants

01-22 The Municipality filed the Financial Status Report with amounts that do not agree with the general ledger.

- Situation still prevails. Refer to Finding Núm. 02-16 and related Corrective Action Plan.

Head Start

01-23 The Municipality's Head Start program did not meet its client population served as required in the grant agreement.
 01-24 The Municipality filed the Financial Status Report with amounts that do not agree with the general ledger.
 01-25 The Municipality did not monitor subrecipients of Head Start funds.
 01-26 The Municipality's Heat Start program disbursed federal funds to participants without verifying their income as required by federal regulations.
 01-27 Several of the Municipality's Head Start child care centers did not have current fire and health department licenses.

- Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Corrective Action plan was implemented to correct the situation.
 - Situation still prevails. Refer to Finding Núm. 02-17 and related Corrective Action Plan.

**HIV Emergency
Relief Project Grants**

01-28 The Municipality filed a Financial Status Report that does not agree with the Municipality's general ledger.

- Situation still prevails. Refer to Finding Núm. 02-19 and related Corrective Action Plan.

\$ 27,288

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART VI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MUNICIPALITY OF SAN JUAN, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2002

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures
<u>Department of Housing and Urban Development (HUD)</u>		
Section 8 Housing Choice Vouchers	14.871	\$ 19,576,573
Community Development Block Grants/Entitlement Grants	14.218	13,695,976
Housing Opportunities for Persons with AIDS	14.241	6,511,777
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	3,675,988
HOME Investment Partnerships Program	14.239	3,061,222
Emergency Shelter Grants Program	14.231	521,993
Supportive Housing Program	14.235	358,223
Home Ownership Zone Program-Cantera Peninsula Homeownership Zone	14.HZ97-020	259,338
<u>Department of Health and Human Services (HHS)</u>		
Head Start	93.600	21,413,812
HIV Emergency Relief Project Grants	93.914	13,932,041
Substance Abuse and Mental Health Services	93.243	509,960
Mental Health Clinical and AIDS Services	93.244	300,321
Health Center Grants for Homeless Populations (HCH)	93.151	270,328
Cancer Control	93.399	218,410
Community Services Block Grant-Discretionary Awards	93.570	23,564
Pass-through from Commonwealth of Puerto Rico Families and Child Administration:		
Community Services Block Grant	93.569	3,861,481
Pass-through from Commonwealth of Puerto Rico Governor's Office:		
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	746,357
Pass-through from Commonwealth of Puerto Rico-WESTAT		
National Health Institute-WESTAT	93.XXX	643,414
Pass-through from Commonwealth of Puerto Rico Department of Health:		
Immunization Grants	93.268	244,614
Maternal and Child Health Services Block Grant to the States	93.994	217,554
HIV Demonstration, Research, Public and Professional Education Projects	93.941	178,877
<u>Department of Labor (DOL)</u>		
Pass-through the Commonwealth of Puerto Rico Right to Employment Administration:		
Workforce Investment Act (WIA)	17.255	10,086,359
Welfare-to-Work Grants to States and Localities	17.253	452,430
<u>Department of Justice (DOJ)</u>		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	5,071,470
Drug Free Communities Support Program Grants	16.729	86,849
Legal Assistance for Victims	16.524	19,186
Pass-through from Commonwealth of Puerto Rico Department of Justice:		
Local Law Enforcement Block Grants Program	16.592	318,352
Crime Victim Assistance	16.575	80,013
<u>Department of Education (ED)</u>		
Federal Pell Grant Program (PELL)	84.063	2,135,542
TRIO Student Support Services	84.042	213,635
Higher Education - Institutional Aid - Strengthening Institutions Program	84.031	56,334
Federal Work-Study Program (FWS)	84.033	43,828
<u>Department of Agriculture (USDA)</u>		
Pass-through from Commonwealth of Puerto Rico Department of Education:		
Child and Adult Care Food Program (CACFP)	10.558	1,233,388
<u>Department of Transportation (DOT)</u>		
Federal Transit-Capital Investment Grants	20.500	300,063
<u>Corporation for National and Community Service</u>		
Pass-through from Commonwealth of Puerto Rico Department of Health:		
Foster Grandparent Program	94.011	50,987
Retired and Senior Volunteer Program	94.002	19,426
<u>Other</u>		
Not-Catalogued Miscellaneous	99.999	21,409
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 110,411,094

See notes to Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

NOTES TO 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 San Juan, Puerto Rico, and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality's government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, which conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounts of the Municipality are presented on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards to the other governmental funds column in the fund financial statements follows:

Schedule of expenditures of federal awards	\$ 110,411,094
Nonfederal programs included in the special revenue funds	<u>797,249</u>
Total special revenue funds	111,208,343
Capital projects funds	<u>36,376,522</u>
Other governmental funds column in the fund financial statements	<u>\$ 147,584,865</u>

- 2. Catalog of Federal Domestic Assistance ("CFDA")** numbers are presented for programs for which such numbers are available.
- 3. Reporting Entity** - The Municipality, for purposes of the supplementary Schedule of Expenditure of Federal Awards, includes all the funds of the primary government as defined by GASB Statement No. 14, *The Financial Reporting Entity*.

4. Subrecipients

Of the federal expenditures presented, the Municipality provided federal awards to subrecipient from the following Federal programs:

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Amount Provided</u>
Child and Adult Care Food Program (CACFP)	10.558	\$ 71,398
Community Development Block Grants/Entitlement Grants	14.218	3,328,802
HOME Investment Partnerships Program	14.239	104,845
Housing Opportunities for Persons with AIDS	14.241	2,956,234
Substance Abuse and Mental Health Services	93.243	433,697
Mental Health Clinical and AIDS Services	93.244	257,539
Community Services Block Grant	93.569	88,680
Head Start	93.600	2,752,610

MUNICIPALITY OF SAN JUAN, PUERTO RICO

PART VII

**CORRECTIVE ACTION PLANS ON
CURRENT YEAR FINDINGS**



**San Juan
Ciudad Capital**



"Hacia el San Juan Soñado"

**Gerardo A. Rodríguez
Director de Finanzas**

***Municipality of San Juan
Corrective Action Plan***

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
Accounting and Finance Department			
02-01	According to law number 81, Section 7.011(a) August 30, 1991, of the Autonomous Municipalities, as part of the Budget for the fiscal year 2003-2004, the municipality will include the necessary credits to amortize the deficit during incoming years. In addition, the Municipality's Budget Department would be directly monitoring departments' expenditures and identifying additional funds.	Mr. Francisco Peña	June 30, 2003
Payroll and Personnel			
02-02	New payroll registers and reports have been designed and implemented in order to include detailed information regarding Departments' payroll expenditures. In addition, on a monthly basis, departments' payroll expenditures reports are being reconciled against general ledger accounts by the accounting division at the Municipality's Finance Department.	Mr. Gerardo Rodríguez / Ms. Maritza Aguilar	Already completed during fiscal year 2002-2003.
02-03	The Human Resources Department is ongoing and implementing a new hiring process which requires an employee certification stating and identifying the federal program and account which the employee will be paid from.	Ms. Maritza Aguilar	June 30, 2003

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San Juan, PR 00936-8179
Estado Libre Asociado de Puerto Rico

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
Property Management			
02-04	As part of the implementation of the new Governmental Accounting Standard Board Statement No. 34, the Municipality established and improved controls over property, plant and equipment, and infrastructure custody and recording. As a result, a special module for property, plant and equipment was developed and included as part of the Municipality's Oracle accounting system. Through this module the Municipality will maintain an updated property ledger that will be reconciled against annual physical inventories. All identified differences between the physical and subsidiary inventories will be investigated, adjusted, and reconciled.	Mr. Gerardo Rodríguez	June 30, 2003
Federal Funds Administration			
02-05	The Municipality's Purchasing Department will be implementing new procurement procedures, regarding the method used to verify whether the individuals or entities are on the list of parties excluded from federal procurement and nonprocurement programs. Procedures to comply with such requirement are under implementation. Refer to corrective action of Finding 02-11.	Mr. Jorge Colomer	May 31, 2003
CFDA 14.218: Community Development Block Grants/Entitlement Grants			
02-06	The following procedures will be implemented in order to reconcile differences between the CO4PR26 CDBG Financial Summary and the General Ledger. (a) Disbursements reports are being prepared to identify each disbursements with their related drawdown request; (b) Reports that allow the identification of differences and the reconciliation between the amounts reported through the IDIS system and those reported by the Municipality's Finance Department are being prepared; (c) Bank Reconciliation are being analyzed in detail in order to evaluate CDBG accounts balances and outstanding checks; (d) Reconciliations will be made between CDBG disbursements reports and other related financial reports in order to identify any reconciling item between the IDIS system and CDBG internal	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003
02-07	A property and equipment inventory report, which contains all required information per federal regulations, was designed. Such report indicates, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number. Copy of the report was presented to the auditors for their review and comments.	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
02-08	Costs should not be questioned since the reason for this finding is not based on an allowability issue. Erroneously, the total cost of the services provided by the external consultant was charged to the CDBG program, instead of been properly allocated among the Federal programs benefited by the services.	Mr. Diego Robles / Mr. Felipe Candelaria	Situation was already corrected (no further action required).
CFDA 14.239: Home Investment Partnerships Program			
02-09	<p>Although we do not agree with the auditor's conclusion, we are suggesting the following corrective action plan:</p> <p>All HOME-assisted units are required to be occupied by low income households. Low income is defined as 80 percent of the applicable area median income, adjusted for family size, as determined by HUD. The Municipality of San Juan's HOME Program uses guidelines established for the HUD Section 8 Program, in order to compute a household's annual income for eligibility purposes. Income is defined in 24 CFR Part 813 (more commonly known as the Section 8 Program rules). Annual income is based on household's gross income identified as "the eligibility income" under Section 8. Section 8 adjusted income is not used for purposes of eligibility in HOME.</p> <p>The determination of an applicant's income and family eligibility must be done within six months of the time at which the applicant receives assistance or occupies the unit. NAHA Amendments in 1999 clarify that the assistance for homebuyers is delivered "in the case of a contract to purchase existing housing, at the time of purchase; in the case of a lease-purchase agreement for existing housing or for housing to be constructed, at the time the agreement is signed; or in the case of a contract to purchase housing to be constructed, at the time the contract is signed." For rental housing, family income and family size must be determined annually for the compliance period.</p>	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003
02-10	A property and equipment inventory report, including all required information per federal regulations, was developed. The report indicates, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number. Copy of the report was presented to the auditors for their review and comments.	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
CFDA 14.241: Housing Opportunities for Persons with AIDS			
02-11	<p>The Municipality will assure that any individual or group contracted through, or applying for federal funds, comply with the suspended or debarment requirement. Contractors included on the GSA List of Parties Excluded from Procurement Programs will be excluded from receiving contracts and, if applicable, subcontracts, under the conditions and for the period set forth in the statute or regulation and contractors debarred, suspended, or proposed for debarment, are also excluded from conducting business with the Municipality as agents or representatives of other contractors. In addition to the aforementioned, post bid-opening procedures will be implemented.</p> <p>a. After opening of bids or receipt of proposals, the Contracting Officer shall review the GSA List of Parties Excluded from Procurement Programs.</p> <p>b. Bids received from any listed contractor in response to an invitation for bids, shall be entered on the abstract of bids and rejected.</p> <p>c. Proposals, quotations, or offers received from any listed contractor shall not be evaluated for award or included in the competitive range, nor shall discussions be conducted with a listed offeror during a period of ineligibility. If the period of ineligibility expires or is terminated prior to award, the Contracting Officer may, but is not required to, consider such proposals, quotations, or offers.</p> <p>d. Immediately prior to award, the Contracting Officer shall again review the list to ensure that no award is made to a listed contractor.</p>	Mr. Diego Robles / Mr. Felipe Candelaria	May 31, 2003
02-12	<p>A property and equipment inventory report was designed including all required information per federal regulations. The report states, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number. Copy of the report was presented to the auditors for their review and comments.</p>	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003
CFDA 14.856: Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation			
02-13	<p>Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Most of such differences represent adjustments that were not considered by the Program and were recorded on the general ledger by the Municipality's accounting division.</p>	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
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CFDA 14.871: Section 8 Housing Choice Vouchers

02-14 The Municipality has established a quality control division to correct HQS deficiencies within the established periods. The following procedures were designed for compliance:

Correcting Initial HQS Fail Items

The Municipality will schedule a timely unit inspection on the date selected by the owner (as soon as the unit is ready for inspection) or thereafter, within 5 working days, upon receipt of a Request for Tenancy Approval. The owner and participant will be notified in writing of the results of the inspection. If the unit fails HQS again, the owner and the participant will be advised to notify the Municipality to reschedule a re-inspection when the repairs have been properly completed.

Mr. Diego Robles /
Mr. Felipe Candelaria

Already completed
during fiscal year 2002-
2003.

On an initial inspection, the owner will be given up to 30 days to correct the items noted as failed, depending on the extent of the repairs that are required to be made. No unit will be placed in the program until the unit meets the HQS requirements.

HQS Fail Items for Units under Contract

The owner or participant will be given time to correct the failed items cited on the inspection report for a unit already under contract. If the failed items endanger the family's health or safety, the owner or participant will be given 24 hours to correct the violations. For less serious failures, the owner or participant will be given up to 30 days to correct the failed items.

If the owner fails to correct the HQS failed items after proper notification has been given, the Municipality will abate payment and terminate the contract in accordance with the Administrative Plan Procedures.

If the participant fails to correct the HQS failed items that are family-caused after proper notification has been given, the Municipality will terminate assistance for the family in accordance with the Administrative Plan Procedures.

Time Frames for Corrections

- Emergency repair items must be abated within 24 hours.
- Refrigerators, range and oven repairs, or a major plumbing fixture supplied by the owner must be abated within 72 hours.
- Non-emergency items must be completed within 10 days of the initial inspection.
- For major repairs, the owner will have up to 30 days to complete.

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
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Extensions

At the sole discretion of the Municipality, extensions of up to 30 days may be granted to allow an owner to complete repairs if the owner has made a good faith effort to correct them. If repairs are not completed within 60 days after the initial inspection date, the Municipality Housing Department will abate the rent and cancel the HAP contract for owner noncompliance. Extensions will be approved on a case-by-case basis.

Abatement

When a unit fails to meet HQS and the owner has been given an opportunity to correct the deficiencies, but has failed to do so within in the required timeframe, the rent for the dwelling unit will be abated. The initial abatement period will not exceed 15 days. If the corrections of deficiencies are not made within the 15-day timeframe, the abatement will continue until the HAP contract is terminated. When the deficiencies are corrected, the Municipality will end the abatement the day the unit passes inspection. Rent will resume the following day and be paid the first day of the next month.

For tenant-caused HQS deficiencies, the owner will not be held accountable and the rent will not be abated. The tenant is held to the same standard and timeframes for correction of deficiencies as owners. If repairs are not completed by the deadline, the Municipality will send a notice of termination to both the tenant and the owner. The tenant will be given the opportunity to request an informal hearing.

02-15	A property and equipment inventory report, which contains all required information per federal regulations, was designed. Such report indicates, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number. Copy of the report was presented to the auditors for their review and comments.	Mr. Diego Robles / Mr. Felipe Candelaria	June 30, 2003
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CFDA 16.710: Public Safety Partnership and Community Policing Grants (COPS)

02-16	Monthly financial statements are being issued by the Finance Department to each Federal Program Administrator to reconcile, on a monthly basis, any difference noted between the numbers kept at the Program and the ones maintained in the general ledger. Much of such differences represent adjustments that are not considered by the Program and were recorded on the general ledger by the Municipality's accounting division. The Finance Department personnel will be verifying that such reconciliation is made.	Mr. Gerardo Rodríguez	June 30, 2003
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<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
CFDA 93.600: Head Start			
02-17	Since fire and health department licenses and permits are granted by the State Government agencies, the Municipality will continue requesting to the related agencies such documentation. State agencies are the ones who visit the facilities, approve the licenses and permits and finally granted. In addition, some of the centers mentioned are located within State Government facilities, reason why the licenses and permits are in possession of the corresponding State agency.	Ms. Evelyn Lafontaine	During fiscal year 2003-2004.
02-18	External assistance and internal controls will be contracted and implemented, respectively in order to correct such situation. A physical inventory will be performed and an adequate property and equipment register will be prepared. Such register will indicate, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number.	Ms. Evelyn Lafontaine	June 30, 2003
CFDA 93.914: HIV Emergency Relief Project Grants			
02-19	Difference's supporting documentation was gathered by the Municipality's Finance Department and the corresponding adjustment was posted in order to properly adjust general ledger account.	Mr. Gerardo Rodríguez	Already completed during fiscal year 2002-2003.
CFDA 17.255: Workforce Investment Act (WIA)			
02-20	The employee performing duties under the Welfare to Work Program was transferred back to the program. Salary adjustments were made to allocate the expenditures to the appropriate accounts. Further, WIA funds were reimbursed. This situation is being addressed by the implementation of a Fund Accounting System (MIP).	Mrs. Frances Ortiz	Already completed during fiscal year 2002-2003.
02-21	Evidence was provided to the auditors demonstrating the municipality's WIA Program written policy regarding the mentioned supportive services called "Procedimientos para Establecer el Ofrecimiento de Servicios de Sostén Bajo el Programa de Jóvenes, Adultos y Trabajadores Desplazados". Also, a manual called "Elementos de consideración para determinar asignación de servicios de sostén bajo el Programa de Jóvenes, Adultos y Trabajadores Desplazados", which includes policy regarding the amount allocated to supportive services according to participant's needs was provided to the auditors.	Mrs. Frances Ortiz	Already completed during fiscal year 2002-2003.

<u>Finding Num.</u>	<u>Corrective Action Planned</u>	<u>Contact Person</u>	<u>Anticipated Completion Date</u>
02-22	Proper evidence was provided to the auditors demonstrating equipment was properly registered. Nevertheless, property and equipment register reports will be thoroughly reviewed in order to ensure that all required information established by federal regulations is included. Such reports will indicate, among other things, the property number, item description, acquisition and disposition date, funding sources, unit cost, location, use, condition, value and sales price at disposition, date received and purchase order number.	Mrs. Frances Ortiz	June 30, 2003
02-23	This finding details three conditions; (1) The auditor does not describes a specific noncompliance condition. According the 20CFR 664.320; 30% of youth activity funds must be used to provide services to Out of School Youth. The expenditures registered (59% of total allocation) for the audited period demonstrated that the program had already complied and exceeded the expected expenditure limit; (2) This situation is being addressed by the implementation of a Fund Accounting System (MIP); (3) The available computer system module for the recognition of Youth Program was the same used under the JTPA program, which did not recognized participants 18 years or more as adults as defined under WIA. This situation is being addressed by the implementation of a Fund Accounting System (MIP).	Mrs. Frances Ortiz	June 30, 2003
02-24	Although the accounting system is currently under the Municipality's Finance Department, the Program, as required by the State Agency Human Resources and Occupational Council, will implement an automated accounting system called MIP. Under this new system the Program will be able to maintain proper accounting procedures that will complement the Municipality financial data.	Mrs. Frances Ortiz	June 30, 2003

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**MUNICIPALITY OF
SAN JUAN, PUERTO RICO**

Independent Auditors' Report

**Basic Financial Statements and
Supplemental Schedule**
Year Ended June 30, 2002

MUNICIPALITY OF SAN JUAN, PUERTO RICO

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE YEAR ENDED JUNE 30, 2002

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico, as of and for the year ended June 30, 2002, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Comunidad del Retiro, which represents 9% and 2%, respectively, of total assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Comunidad del Retiro, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, as of June 30, 2002, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for States and Local Governments*, and has adopted paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures, as of June 30, 2002*.

As described in Note 1, and as part of the implementation of GASB Statement No. 34, the Municipality revised the classification of its funds and decided to reclassify the Enterprise Fund to the General Fund. Accordingly, the current assets and liabilities of the Enterprise Fund were transferred to the General Fund. In addition, the Municipality adopted a prospective reporting of its general infrastructure assets.

The Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Schedule - General Fund on page 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

November 18, 2002

Stamp No. 1849192

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Municipality of San Juan (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments, for the fiscal year ended on June 30, 2002. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by \$1.8 million.
- In the fund financial statements, the governmental activities revenue increased \$34.9 million (or 8.1%) while governmental activities expenditures decreased \$55 million (or 9.0%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$3.7 million.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$1.2 million.
- Nonrecurring revenues of the general fund amounted to \$26.7 million
- The Municipality issued bonds amounting to \$64.5 million to finance capital improvements.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2001, the Municipality commenced the prospective reporting of infrastructure assets. The Municipality expects to retroactively report the historical costs of infrastructure assets during the fiscal year beginning July 1, 2002. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined negative net assets (excess of liabilities over assets) totaled \$80.1 million at the end of 2002, compared to \$78.2 million at the end of the previous year.

The largest portion of the Municipality's deficit is the unrestricted deficit. This is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

An additional portion of the Municipality's deficit represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the deficit, and these are resources subject to external restrictions for the purposes explained above.

Condensed Statement of Net Assets

June 30, 2002

Current assets	\$ 126,101,867
Capital assets	391,686,696
Other assets	<u>192,532,910</u>
Total assets	<u>710,321,473</u>
Current liabilities	222,340,386
Noncurrent liabilities	<u>568,082,337</u>
Total liabilities	<u>790,422,723</u>
Invested in capital assets, net of related debt	86,698,003
Restricted	42,501,786
Unrestricted	<u>(209,301,039)</u>
Total net assets	<u>\$ (80,101,250)</u>

Changes in Net Assets

The Municipality's net assets deficit increased by \$1.8 million. Approximately 59 percent of the Municipality's total revenue came from taxes, while 27 percent resulted from grants and contributions, including federal aid. Charges for Services provided 8 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, and urban development. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Condensed Statement of Activities June 30, 2002

Program revenues:	
Charges for services	\$ 49,238,104
Operating grants and contributions	106,005,209
Capital grants and contributions	1,998,009
General revenues:	
Property taxes	182,030,857
Municipal license tax	94,622,869
Grants and contributions not restricted to specific programs	20,930,919
Interest and investment earnings	8,476,522
Miscellaneous	<u>8,903,850</u>
Total revenues	<u>472,206,339</u>
Expenses:	
General government	60,790,793
Public safety	35,942,150
Public works	50,014,506
Culture and recreation	11,729,241
Health and welfare	210,270,446
Urban development	43,249,695
Economic development	32,450,781
Education	7,951,505
Interest on long-term debt	<u>21,674,248</u>
Total expenses	<u>474,073,365</u>
Change in net assets	(1,867,026)
Net assets, beginning of year	<u>(78,234,224)</u>
Net assets, end of year	<u>\$ (80,101,250)</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$94.5 million, a decrease of \$8.9 million in comparison with the prior year. There are reservations of fund balance amounting to \$167.1 million. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$34.4 million), 2) to pay debt service (\$42.5 million), 3) to pay for capital projects (\$83.9 million) or 4) for inventories not yet consumed (\$6.3 million). Accordingly, since there is an excess of reservations over the total fund balance there exists a deficit of \$72.6 million in the governmental funds.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2002, the general fund has a deficit of \$32 million. This accomplishment is especially significant considering that in the previous year the fund balance of the general fund decreased by \$69.3 million. Key factors in the decrease of the deficit are as follows:

- Increase of \$34.3 million in total revenues.
- Increase of \$.8 million in expenditures
- Operating transfer of \$19.7 million from the debt service fund
- Other financing sources amounting to \$10 million.

Increase of \$34.3 million in total revenues was mainly due to increases of \$10.2 million in Property Tax, \$5.7 million in Municipal License Tax and \$17.5 million in Charges for Services. The Municipality moved aggressively with an appraisal and collection effort to collect Property Tax debts and to enhance the revenue base of the Municipality. Also, an improvement in our collection efforts for Municipal License Taxes due to an strategic plan to reduce tax evasion, better equipment and personnel training, helped to increase our revenues. In addition, the Financial Sector had a better financial performance in comparison to previous years and accordingly filed with additional Municipal License Taxes revenues to the Municipality.

Furthermore, the increase in charges for services is mainly related to the establishment of a sound and effective billing system for the health services provided by the Municipality.

The increase of \$.8 million in expenditures is due to tighter controls imposed by the Municipality's management due to the precarious economic situation that current management inherited from the previous years.

The operating transfer of \$19.7 million from the debt service fund to the general fund is the result of Law 28 of May 4, 2001, which allows municipalities that have excess funds to repay general obligation bonds to transfer such excess to the general fund for operating purposes.

Other financing sources amounting to \$10 million are the result of \$3 million of long-term debt issued in connection with the Miss Universe pageant celebrated in San Juan in May 2001 and \$7 million reimbursed from the CRIM related to the cancellation of project LIMS (Land Information Management System). LIMS was expected to be a multi-functional, multi-disciplinary computer system whose primary purpose would have been the development, maintenance, updating and automation of the land maps for Puerto Rico. This project was being funded by the different municipalities of Puerto Rico through retentions made by CRIM of Property Tax revenue. When the project was cancelled, CRIM reimbursed the municipalities the amounts that had been withheld to fund the project.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The most significant variance between budget and actual results was a revenue shortfall on charges for services that resulted because of budgeted revenues for Medicaid that were not realized but were partially offset by higher than expected revenues of billings to medical plans and health reform and other miscellaneous charges for services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2002, amounts to \$539.5 million, net of accumulated depreciation of \$147.8 million, leaving a net book value of \$391.7 million. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 13.6% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$48.5 million for the year. Depreciation charges for the year totaled \$12.9 million.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2002 the Municipality has \$83.9 million of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations.

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Municipal Revenues Collection Center ("CRIM") of approximately \$3.623 billion, the Legal Margin of San Juan as of August 4, 2002, was \$362.3 million. San Juan's Available Legal Margin as of August 4, 2002, was calculated by Government Development Bank for Puerto Rico ("GDB") to equal \$14.0 million after subtracting from the Legal Margin the amount of \$373.94 million in outstanding general obligation debt as of June 30, 2002, and adding to the Legal Margin the excess amount in its Redemption Fund of \$25.7 million as of June 30, 2002.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2002-2003 fiscal year.

The most significant change between the budget for fiscal year 2001-2002 and the one for fiscal year 2002-2003 is a loan, taken under Title I, Section 108 of the Housing and Urban development Law of 1974, amounting to \$73.7 million. This loan will be used to finance the Capital Improvements Program of the Municipality.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 5th floor of the Municipal Tower, Chardon Avenue, San Juan, Puerto Rico 00919.

MUNICIPALITY OF SAN JUAN

STATEMENT OF NET ASSETS JUNE 30, 2002

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 70,672,194
Cash with fiscal agent	184,515,738
Accounts receivable:	
Municipal license tax	3,200,000
Intergovernmental	37,973,029
Other	7,937,214
Inventories	6,319,430
Deferred charges	1,711,070
Restricted assets - Cash and cash equivalents	4,402,919
Note receivable	1,903,183
Capital assets	<u>391,686,696</u>
Total assets	<u>710,321,473</u>
LIABILITIES	
Accounts payable and accrued liabilities	94,190,723
Deferred revenues:	
Municipal license tax	80,341,461
Federal grant revenues	13,180,801
Matured bonds and interest payable	34,627,401
Noncurrent liabilities:	
Due within one year	52,873,039
Due in more than one year	<u>515,209,298</u>
Total liabilities	<u>790,422,723</u>
NET ASSETS	
Invested in capital assets, net of related debt	86,698,003
Restricted for debt service	42,501,786
Unrestricted	<u>(209,301,039)</u>
Total net assets	<u>\$ (80,101,250)</u>

See notes to financial statements.

MUNICIPALITY OF SAN JUAN

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2002

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 60,790,793	\$ 9,192,847	\$ 794,844	\$ -	\$ (50,803,102)
Public safety	35,942,150	888,799	6,744,808		(28,308,543)
Public works	50,014,506	60,104	41,725	1,998,009	(47,914,668)
Culture and recreation	11,729,241	464,306	1,011,607		(10,253,328)
Health and welfare	210,270,446	32,190,405	45,583,567		(132,496,474)
Urban development	43,249,695		34,908,901		(8,340,794)
Economic development	32,450,781	4,772,083	14,873,402		(12,805,296)
Education	7,951,505	1,669,560	2,046,355		(4,235,590)
Interest on long-term debt	21,674,248				(21,674,248)
Total governmental activities	\$ 474,073,365	\$ 49,238,104	\$ 106,005,209	\$ 1,998,009	\$ (316,832,043)
General revenues:					
Property taxes					\$ 182,030,857
Municipal license tax					94,622,869
Grants and contributions not restricted to specific programs					20,930,919
Interest and investment earnings					8,476,522
Miscellaneous					8,903,850
Total general revenues					314,965,017
Change in net assets					(1,867,026)
Net assets at beginning of year					(78,234,224)
Net assets at end of year					\$ (80,101,250)

See notes to financial statements.

MUNICIPALITY OF SAN JUAN

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002**

ASSETS	General	Debt Service Fund	2002 Bond Issue Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 49,954,527			\$ 20,717,667	\$ 70,672,194
Cash with fiscal agent		\$ 68,223,200	\$ 55,522,857	60,769,681	184,515,738
Accounts receivable:					
Municipal license tax	3,200,000				3,200,000
Intergovernmental	19,934,065	8,970,694		9,068,270	37,973,029
Other	7,248,480			688,734	7,937,214
Due from other funds	13,748,797				13,748,797
Inventories	6,319,430				6,319,430
Restricted assets - cash and cash equivalents				4,402,919	4,402,919
Note receivable	1,903,183				1,903,183
Total assets	\$ 102,308,482	\$ 77,193,894	\$ 55,522,857	\$ 95,647,271	\$ 330,672,504
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 54,314,265	\$ 64,707	\$ 815,938	\$ 38,995,813	\$ 94,190,723
Due to other fund			3,131	13,745,666	13,748,797
Matured bonds and interest payable		34,627,401			34,627,401
Deferred revenues:					
Municipal license tax	80,341,461				80,341,461
Federal grant revenues				13,180,801	13,180,801
Total liabilities	134,655,726	34,692,108	819,069	65,922,280	236,089,183
Fund balances:					
Reserved for:					
Inventories	6,319,430				6,319,430
Debt service		42,501,786			42,501,786
Capital projects			54,703,788	29,221,623	83,925,411
Encumbrances	34,446,891				34,446,891
(Deficit) fund balance:					
General fund	(73,113,565)				(73,113,565)
Special revenue funds				503,368	503,368
Total fund balances	(32,347,244)	42,501,786	54,703,788	29,724,991	94,583,321
Total liabilities and fund balances	\$ 102,308,482	\$ 77,193,894	\$ 55,522,857	\$ 95,647,271	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		391,686,696
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		1,711,070
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absences	\$ 36,516,076	
Liability for claims and judgments	9,000,000	
Landfill closure and postclosure care costs	50,767,648	
Other liabilities	29,379,437	
Notes payable	9,475,000	
Bonds payable	373,940,000	
Mortgage loan payable	6,074,147	
Advances from CRIM	44,030,072	
Obligations under capital leases	8,899,957	
Total long-term liabilities		(568,082,337)
Total net assets of governmental activities		\$ (80,101,250)

See notes to financial statements.

MUNICIPALITY OF SAN JUAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2002**

	General	Debt Service Fund	2002 Bond Issue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 138,894,050	\$ 43,136,807		\$ -	\$ 182,030,857
Municipal license tax	94,622,869				94,622,869
Licenses, permits and other local taxes	5,455,887				5,455,887
Charges for services	39,961,023			7,220	39,968,243
Fines and forfeitures	3,650,399				3,650,399
Interest	8,336,530			139,992	8,476,522
Intergovernmental:					
Federal				108,003,218	108,003,218
Local	20,930,919				20,930,919
Other	1,751,972			299,431	2,051,403
Total revenues	<u>313,603,649</u>	<u>43,136,807</u>		<u>108,449,861</u>	<u>465,190,317</u>
EXPENDITURES:					
Current:					
General government	72,578,026			1,075,183	73,653,209
Public safety	28,826,079			6,157,603	34,983,682
Public works	48,891,307			76,725	48,968,032
Culture and recreation	8,853,731			1,011,607	9,865,338
Health and welfare	162,990,426			45,690,126	208,680,552
Urban development	5,300,860			37,386,681	42,687,541
Economic development	14,339,493			14,944,596	29,284,089
Education	5,261,810			2,528,267	7,790,077
Capital outlays			9,771,212	38,714,077	48,485,289
Debt service:					
Principal		23,300,000			23,300,000
Interest		21,674,248			21,674,248
Total expenditures	<u>347,041,732</u>	<u>44,974,248</u>	<u>9,771,212</u>	<u>147,584,865</u>	<u>549,372,057</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(33,438,083)</u>	<u>(1,837,441)</u>	<u>(9,771,212)</u>	<u>(39,135,004)</u>	<u>(84,181,740)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfer from other fund	19,728,997				19,728,997
Proceeds from issuance of long-term debt			64,475,000		64,475,000
Proceeds from issuance of note payable	3,000,000				3,000,000
Proceeds from lease agreement				783,056	783,056
Reimbursement of expenditures by CRIM	7,016,022				7,016,022
Operating transfer to other fund		(19,728,997)			(19,728,997)
Total other financing sources (uses)	<u>29,745,019</u>	<u>(19,728,997)</u>	<u>64,475,000</u>	<u>783,056</u>	<u>75,274,078</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(3,693,064)</u>	<u>(21,566,438)</u>	<u>54,703,788</u>	<u>(38,351,948)</u>	<u>(8,907,662)</u>
FUND BALANCES (DEFICIT), AT BEGINNING OF YEAR (RESTATED)	<u>(28,654,180)</u>	<u>64,068,224</u>		<u>68,076,939</u>	<u>103,490,983</u>
FUND BALANCES (DEFICIT), AT END OF YEAR	<u>\$ (32,347,244)</u>	<u>\$ 42,501,786</u>	<u>\$ 54,703,788</u>	<u>\$ 29,724,991</u>	<u>\$ 94,583,321</u>

See notes to financial statements.

MUNICIPALITY OF SAN JUAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$(8,907,662)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 48,485,289	
Less current year depreciation	<u>(12,906,568)</u>	35,578,721

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which proceeds exceeded repayments

Bond, loan and capital lease proceeds	(68,258,056)	
Bond costs	340,509	
Principal payments	<u>31,113,278</u>	(36,804,269)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of deferred charges	(156,168)
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Change in landfill accrual	<u>8,422,352</u>
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Change in net assets of governmental activities	<u>\$(1,867,026)</u>
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See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of San Juan (the "Municipality") was founded in the year 1521. It is the largest municipality and the capital of the Commonwealth of Puerto Rico. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a seventeen-member Municipal Legislature who are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. This results in the recognition of the costs incurred during the fiscal year ended June 30, 2002 for the acquisition of infrastructure assets (e.g., roads, bridges, sidewalks). The Municipality expects to report the retroactive historical costs of infrastructure assets during the fiscal year beginning on July 1, 2002.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, which rescinds some and modifies other financial statement disclosure requirements. As part of the implementation of Statement No. 34, the Municipality revised the classification of its funds and decided to reclassify the Enterprise Fund to the General Fund. Accordingly, the current assets and liabilities of the Enterprise Fund were transferred to the General Fund. Non-current assets and liabilities of the Enterprise Fund were recorded to the Government-Wide Statement of Net Asset and the General Fund Deficit as of July 1, 2001 was restated as follows:

Description	Amount
General Fund Deficit at beginning of year	\$(46,685,378)
Less Enterprise Fund property and equipment	(68,310,106)
Plus Enterprise Fund:	
Contributed capital	68,065,618
Accrued compensated absences	9,945,686
Notes payable	<u>8,330,000</u>
General Fund Deficit at beginning of year, as restated	<u>\$(28,654,180)</u>

A. Component Units

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, *The Financial Reporting Entity*, of the GASB. 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 if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Comunidad del Retiro is included in the financial statements as a blended component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office:

Condominio Centro de Altamira
Paseo 501 Street, Suite 210
Urbanización Altamira
San Juan, Puerto Rico 00920

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

The 2002 Bond Issue Fund is a capital project fund used to account for the financial resources used for the acquisition or construction of infrastructure and other major capital facilities.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule – general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

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

D. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent** - The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in the 2002 bond issue fund consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

- 2. Receivables and payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

- 3. Inventories** - Inventories in the general fund are stated at cost. Inventories consist of supplies held for consumption and medicines used in providing health care services. Inventories are recorded as expenditure at the time the inventory items are consumed (consumption method of accounting). A fund balance reserve equal to the value of the inventories is established in the general fund to indicate that the inventories do not constitute expendable financial resources available for appropriation.
- 4. Capital assets** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings	40
Infrastructure	40
Building and site improvements	15
Works of art	10
Intangible assets	10
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

5. Long-term obligations - The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and third parties, and landfill closure and postclosure care costs. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

6. Compensated absences - Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. Claims and judgments - The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

8. Reservations of fund balance - Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. *Capital Projects* - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- b. *Encumbrances* - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
- c. *Advances and Other Specified Purposes* - Represents net assets available for specific use under federal grant programs, reservation of monies set aside for long-term receivables which are not considered current financing resources or other long-term assets.
- d. *Debt Service Fund* - Represents net assets available to finance future debt service payments.
- e. *Inventory* - Represents inventory that does not represent available financial resources.
- f. *Other* - Represents net assets legally segregated for other specific future use.

9. Interfund and intra-entity transactions - The Municipality has the following types of transactions among funds:

- a. *Operating Transfers* - Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
- b. *Intra-Entity Transactions* - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- c. *Advances* - Represent the amounts advanced among the funds of the Municipality, which are not considered to be currently available financial resources.

10. Risk financing - The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2002 amounted to approximately \$6.3 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$6.3 million for workers compensation insurance covering all municipal employees.

11. Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balances General Fund as charges for services. The corresponding expenses appear as function/program costs in the Statement of Activities.

2. DEPOSITS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$48.9 million in the general fund were fully collateralized at June 30, 2002. In the other governmental funds there were deposits with commercial banks of approximately \$16.9 and \$3.5 million, respectively, that were fully collateralized.

The deposits at GDB of approximately \$116.2 million that are restricted principally for capital projects, and the \$68.2 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

- a. ***Municipal License Tax*** - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2002, the tax rates were as follows:

- Financial business - 1.35% of gross revenues
- Other organizations - 0.27% for annual revenues up to \$1,000,000, and 0.35% over such volume.

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2002, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

- b. **Intergovernmental Receivables** - Intergovernmental receivable in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority ("PREPA"). This represents the amount resulting from the revenues the Municipality is entitled to receive in lieu of payment of taxes. The amounts receivable from other governmental entities are as follows:

Amount presented in the debt service fund represents the ad valorem tax restricted for debt service collected by the CRIM during 2002, which was transferred to the Governmental Development Bank for Puerto Rico in July 2002.

Intergovernmental receivable in other governmental funds represents expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

Program Description	Amount
HIV Emergency Relief Formula Grant	\$3,556,401
Head Start	2,438,829
Public Safety Partnerships and Community Policing Grants	980,986
Housing Opportunities for Persons with AIDS	466,769
Community Development Block Grant	454,712
HOME Investments Partnerships	243,756
Community Services Block Grant	125,317
Supportive Housing Program	157,542
Pell Grant	57,889
Emergency Shelter Grants	46,798
Workforce Investment Act	31,676
Others	<u>507,595</u>
Total	<u>\$9,068,270</u>

- c. **Other** - Other accounts receivable as of June 30, 2002 are as follows:

	<u>Governmental Type Funds</u>		Total
	General Fund	Other Governmental Funds	
Interests	\$ 686,453	\$ -	\$ 686,453
Medical Plans	4,146,020		4,146,020
Centros Mas Salud	1,500,000		1,500,000
Rent	725,289		725,289
Other	<u>533,021</u>	<u>688,734</u>	<u>1,221,755</u>
Gross receivables	7,590,783	688,734	8,279,517
Less allowance for uncollectibles	<u>342,303</u>		<u>342,303</u>
Net total other receivables	<u>\$7,248,480</u>	<u>\$ 688,734</u>	<u>\$ 7,937,214</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2002 are summarized as follows:

a. Due from/to other fund:

Receivable Fund	Payable Fund	Amount
General	2002 Bond Issue Fund	\$ 3,131
	Other Governmental	<u>13,745,666</u>
Total		<u>\$13,748,797</u>

- b. *Operating transfer*** - On May 4, 2001, the Commonwealth's legislature enacted law #28, which authorized municipalities to withdraw the excess of ad valorem taxes over the actual debt service requirement. The Municipality withdrew an excess of approximately \$19.7 million during November 2001 and transferred the amount to the general fund for working capital purposes.

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of five years or more from the time of acquisition by the Municipality and a cost of \$5,000 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2002, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002
Capital asset, not being depreciated:				
Land	\$ 30,147,633	\$ 38,200	\$ -	\$ 30,185,833
Construction in progress	64,209,884	43,365,902	(21,179,884)	86,395,902
Total capital assets not being depreciated	94,357,517	43,404,102	(21,179,884)	116,581,735
Capital assets, being depreciated:				
Buildings and building improvements	223,866,535	4,091,375		227,957,910
Site improvements	98,760,323	14,695,237		113,455,560
Infrastructure		2,393,272		2,393,272
Equipment	32,959,651	3,770,085	(1,053,964)	35,675,772
Works of art	4,404,788	1,088,211		5,492,999
Intangible	3,825,426			3,825,426
Vehicles	33,864,971	222,891		34,087,862
Total capital assets being depreciated	397,681,694	26,261,071	(1,053,964)	422,888,801
Less accumulated depreciation for:				
Buildings and building improvements	(51,033,729)	(5,676,949)		(56,710,678)
Site improvements	(27,256,266)	(2,364,301)		(29,620,567)
Equipment	(27,772,829)	(1,861,398)	1,053,964	(28,580,263)
Works of art	(573,404)	(430,129)		(1,003,533)
Intangible	(382,543)	(382,543)		(765,086)
Vehicles	(28,912,465)	(2,191,248)		(31,103,713)
Total accumulated depreciation	(135,931,236)	(12,906,568)	1,053,964	(147,783,840)
Total capital assets being depreciated, net	261,750,458	13,354,503	-	275,104,961
Governmental activities capital assets, net	\$ 356,107,975	\$ 56,758,605	\$ (21,179,884)	\$ 391,686,696

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 1,702,555
Public safety	958,468
Public works	1,046,474
Culture and recreation	1,863,903
Health and welfare	3,620,842
Urban development	419,468
Economic development	3,133,430
Education	161,428

Total depreciation expense - governmental activities \$ 12,906,568

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

On December 31, 1992, the Municipality entered into an agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2002, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$16.6 million and is payable as follows:

Year Ending June 30,	Amount
2003	\$ 2,762,195
2004	2,762,195
2005	2,762,195
2006	2,762,195
2007	2,762,195
Thereafter	<u>2,762,195</u>
Total	<u>\$ 16,573,170</u>

The difference between the preliminary and the final settlement from CRIM for fiscal year 2001-02 was approximately \$1.5 million. Total advances from CRIM presented in the statement of net assets amounted to approximately \$44 million. (See Note 8).

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2001-02 is 8.25% for real property and 6.25% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.55% and 3.55%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.67% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

7. DEFERRED REVENUES

- a. **Municipal License Tax** - The deferred revenues of approximately \$80.3 million in the general fund relates to municipal license tax collected in fiscal year 2001-02 that will be earned in fiscal year 2002-03.
- b. **Federal Government** - The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description

Section 8 Housing Choice Vouchers	\$ 8,427,853
WESTAT	1,221,222
Maternal Child and Health Services Block Grant	1,062,652
Workforce Investment Act	905,498
Lower Income Housing Assistance Program -	
Section 8 Moderate Rehabilitation	548,252
Childhood Immunization Grants	434,005
Welfare to Work Grants to States and Localities	172,566
Local Law Enforcement Block Grants	83,205
Non-catalogued miscellaneous	<u>325,548</u>
Total	<u>\$ 13,180,801</u>

8. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 332,765,000	\$ 64,475,000	\$(23,300,000)	\$ 373,940,000	\$ 22,850,000
Mortgage loan	6,233,130		(158,983)	6,074,147	173,036
Notes payable	8,330,000	3,000,000	(1,855,000)	9,475,000	2,000,000
Advances from CRIM	46,792,267		(2,762,195)	44,030,072	3,098,195
Obligations under capital leases	11,154,001	783,056	(3,037,100)	8,899,957	3,252,106
Compensated absences	36,516,076			36,516,076	2,500,000
Claims and judgments	9,000,000			9,000,000	1,300,000
Landfill obligation	59,190,000		(8,422,352)	50,767,648	9,000,000
Other liabilities	29,379,437			29,379,437	4,349,851
Total	<u>\$ 539,359,911</u>	<u>\$ 68,258,056</u>	<u>\$(39,535,630)</u>	<u>\$ 568,082,337</u>	<u>\$ 48,523,188</u>

- a. **Legal debt margin** - The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2002 amounted to approximately \$3.7 billion. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

- b. **Bonds payable** - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$64.5 million. Bonds payable outstanding at June 30, 2002 are as follows:

	Outstanding Amount
2001 serial bonds due in annual installments of \$1,080,000 to \$1,475,000, through July 1, 2006; with interest ranging from 5% to 8%	\$ 5,260,000
2001 serial bonds due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 5% to 8%	54,805,000
2002 serial bonds due in annual installments of \$445,000 to \$590,000, through July 1, 2006; with interest ranging from 5% to 7.25%	2,125,000
2001 serial bonds due in annual installments of \$475,000 to \$695,000, through July 1, 2013; with interest at 6.13%	9,185,000
2000 serial bonds due in annual installments of \$970,000 to \$1,605,000, through July 1, 2015; with interest at 5.88%	23,350,000
2000 serial bonds due in annual installments of \$1,225,000 to \$1,605,000, through July 1, 2004; with interest ranging from 4.9% to 5.3%	3,105,000
2000 special obligations bonds due in annual installments of \$1,740,000 to \$2,610,000, through July 1, 2018; with interest ranging from 4.9% to 6.5%	59,450,000
1999 serial bonds due in annual installments of \$3,010,000 to \$4,515,000, through July 1, 2013; with interest ranging from 6.0% to 7.0%	58,185,000
1999 special obligations bonds due in annual installments of \$2,120,000 to \$3,180,000, through July 1, 2016; with interest ranging from 6.0% to 7.0%	58,530,000

	Outstanding Amount
1998 serial bonds due in annual installments of \$1,375,000 to \$2,120,000, through July 1, 2017; with interest ranging from 6.7% to 7.5%	\$ 44,540,000
1998 special obligations bonds due in annual installments of \$405,000 to \$625,000, through July 1, 2019; with interest ranging from 6.7% to 7.5%	16,230,000
1996 serial bonds due in annual installments of \$1,215,000 to \$1,925,000, through July 1, 2011; with interest ranging from 4.7% to 6.6%	19,085,000
1996 special obligations bonds due in annual installments of \$575,000 to \$910,000, through July 1, 2009; with interest ranging from 6.5% to 8.0%	6,440,000
1992 serial bonds due in annual installments of \$1,335,000 to \$2,015,000, through July 1, 2005; with interest ranging from 3.2% to 6.3%	5,570,000
1988 serial bonds due in annual installments of \$825,000 to \$1,100,000, through July 1, 2003; with interest ranging from 8.2% to 9.5%	1,100,000
1987 serial bonds due in annual installments of \$1,225,000 to \$1,955,000, through July 1, 2006; with interest ranging from 8.2% to 9.0%	<u>6,980,000</u>
Total	<u>\$ 373,940,000</u>

These bonds are payable from the ad valorem property tax of 1.67% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ending June 30,	Principal	Interest
2003	\$ 22,850,000	\$ 23,548,027
2004	23,385,000	22,132,874
2005	23,430,000	20,684,856
2006	23,030,000	19,222,742
2007	20,395,000	17,876,539
2008 - 2012	119,785,000	68,160,103
2014 - 2018	99,660,000	30,745,176
2020 - 2024	24,150,000	10,539,941
2026 - 2030	<u>17,255,000</u>	<u>2,894,200</u>
Total	<u>\$ 373,940,000</u>	<u>\$ 215,804,458</u>

- c. **Mortgage loan** - The mortgage loan payable to the federal government bears interest at 8.5% and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of June 30, 2002, are as follows:

Year Ending June 30,	Amount
2003	\$ 173,037
2004	188,332
2005	204,979
2006	223,097
2007	242,817
Thereafter	<u>5,041,885</u>
Total	<u>\$6,074,147</u>

- d. **Notes payable** - The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes bear interest at 8% and 1% over LIBOR (2.86% at June 30, 2002) are payable semi-annually, and mature at various dates through July 1, 2005. The notes are payable as follows:

Year Ending June 30,	Amount
2003	\$ 3,449,000
2004	2,518,000
2005	2,513,000
2006	<u>2,505,600</u>
Sub-total	10,985,600
Less amount representing interest	<u>(1,510,600)</u>
Total	<u>\$ 9,475,000</u>

- e. **Advances from CRIM** - This amount represents the balance owed to CRIM at June 30, 2002 as described in Notes 6 and 14, which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law and as explained in those Notes.
- f. **Obligations under capital leases** - The Municipality has entered into various capital lease agreements to finance the acquisition of equipment related to the implementation of information systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. At June 30, 2002, the capitalized asset amounting to approximately \$16 million is recognized as equipment in the statement of net assets.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2002, were as follows:

Year Ending June 30,	Amount
2003	\$3,424,743
2004	3,198,095
2005	1,961,981
2006	<u>561,736</u>
Total minimum lease payments	9,146,555
Less amount representing interest	<u>246,598</u>
Present value of minimum lease payments	<u>\$8,899,957</u>

- g. **Compensated absences** - The government-wide statement of net assets includes approximately \$16.9 million of accrued sick leave benefits, and approximately \$19.7 million of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- h. **Landfill obligation** - State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$22.4 million as the Municipality's estimated current cost for landfill closure as of June 30, 2002. The preliminary annual estimate of postclosure costs has been assessed approximately to be \$1 million for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2001, the Municipality's landfill facilities have been closed. The balance of closure and postclosure costs of \$22.4 million and \$28.4 million, respectively, are reported in the government-wide statement of net assets.
- i. **Other liabilities** - Other liabilities include approximately \$21.9 million of pension costs for all the employees that elected early retirement benefits pending the final billing to and collection of the amount from the Employees' Retirement System of the Commonwealth and its Instrumentalities (see Note 10), \$5.5 million accrued for possible claims arising from federal cost disallowances as a result of current and prior audits of federally financed programs and approximately \$2 million to the Puerto Rico Electric Power Authority under a non-interest bearing payment plan related to excess electricity consumption incurred by the Municipality in excess of amounts due from the Authority for payments in lieu of taxes for fiscal year 1999-00.

9. REIMBURSEMENT OF EXPENDITURES BY CRIM

On November 16, 2001, the Municipality received approximately \$7 million from CRIM representing amounts retained from 1996-97 to 1999-00 in connection with a project to establish an automated information system.

10. PENSION PLAN

The Employees' Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his /her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2002 amounted to approximately \$8.8 million and \$10.2 million, respectively. For the two preceding fiscal years, the Municipality contributed approximately \$10.6 million and \$9.5 million, which represented 100% of required contributions. In addition, the Municipality contributed approximately \$4.6 million for all the employees that elected early retirement benefits, based on Act No. 342 of December 31, 1998, which authorized the Municipality to establish an early retirement program for all the eligible employees.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940.

11. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Additionally, the Municipality has a claims-made policy for the purpose of providing professional and patient care liability insurance with liability limits of \$300,000 for each medical incident and \$2 million for aggregate incidents. The effective date of the policy is from January 24, 2002, through January 24, 2003. The Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

12. COMMITMENTS

- a. Operating Leases* - The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2002, amounted to approximately \$3.4 million and \$1.1 million, respectively. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not significant.
- b. Construction* - The Municipality had commitments at June 30, 2002 of approximately \$83.9 million for the construction, improvements, or renovation of several municipal facilities.

13. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, including medical malpractice claims from the Municipality's Department of Health.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$9 million for awarded and anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2002, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. At June 30, 2002, the Municipality has recorded approximately \$5.5 million as other liabilities in the government-wide financial statements for possible disallowances costs.

14. SUBSEQUENT EVENTS

During July 2002, the Municipality issued a note payable to the Government Development Bank ("GDB") for approximately \$23.7 million. The proceeds of the note will be used for working capital purposes and will be repaid through withholdings of property tax advances by CRIM.

In addition, during September 2002, the Municipality entered into a repayment agreement with the GDB and CRIM to repay the remaining \$27.4 million of excess property tax advances from fiscal years 2000 and 2001 (see Note 6). The CRIM will retain the principal and interest from the property tax advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through July 1, 2013. The repayment agreement bears interest at a fixed interest rate of 6.19%. The principal amount will be paid as follows:

Year Ending June 30,	Amount
2003	\$ 336,001
2004	356,791
2005	378,867
2006	402,310
2007	427,203
Thereafter	<u>25,555,730</u>
Total	<u>\$27,456,902</u>

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2002**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 133,571,574	\$ 138,470,435	\$ 138,894,050	\$ 423,615
Municipal license tax	94,000,000	94,000,000	94,622,869	622,869
Licenses, permits and other local taxes	1,590,000	4,282,000	5,455,887	1,173,887
Charges for services	31,863,800	46,393,166	39,961,023	(6,432,143)
Fines and forfeitures	3,545,000	3,855,000	3,650,399	(204,601)
Interest	12,500,000	5,771,642	8,336,530	2,564,888
Intergovernmental - local	20,353,206	20,903,206	20,930,919	27,713
Other	14,947,650	10,933,650	11,767,994	834,344
Transfer from other fund		19,728,997	19,728,997	
Total revenues	312,371,230	344,338,096	343,348,668	(989,428)
EXPENDITURES:				
Current:				
General government	81,044,969	74,519,676	77,556,292	(3,036,616)
Public safety	29,327,262	29,468,401	28,721,430	746,971
Public works	40,910,353	51,265,479	50,297,389	968,090
Culture and recreation	8,039,513	8,940,843	8,134,874	805,969
Health and welfare	136,706,952	158,114,109	154,422,651	3,691,458
Urban development	4,473,271	4,718,296	3,354,244	1,364,052
Economic development	7,034,464	12,448,982	14,804,137	(2,355,155)
Education	4,834,446	4,862,310	4,871,608	(9,298)
Total expenditures	312,371,230	344,338,096	342,162,625	2,175,471
EXCESS OF REVENUES OVER EXPENDITURES			\$ 1,186,043	\$ 1,186,043
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 343,348,668
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(19,728,997)
Proceeds from reimbursement from CRIM are inflows of budgetary resources but are not revenues for financial reporting purposes				(7,016,022)
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(3,000,000)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 313,603,649</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 342,162,625
Differences - budget to GAAP:				
Nonbudgeted expenditures				4,349,851
Prior year encumbrances recorded as current year expenditures for GAAP basis				34,976,147
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(34,446,891)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 347,041,732</u>

See notes to budgetary comparison schedule.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND YEAR ENDED JUNE 30, 2002

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget ordinance at June 30, 2002 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2002.

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