

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE SAN JUAN**

**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

COMISIONADO  
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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, 2003**

# 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, 2003

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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, 2003, which standard opinion was modified to state the recording of land, roads, and certain park infrastructure related assets as of July 1, 2001 utilizing the retroactive historical cost approach of Statement of Governmental Accounting Standards No. 34 and the restatement of the Municipality's net assets and the fund balance of the other governmental funds at June 30, 2002, and have issued our report thereon dated January 23, 2004. 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 03-01 to 03-19.

**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 03-01 to 03-05.

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 03-01, 03-03 and 03-04 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*

January 23, 2004

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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, 2003. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit 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; cash management; equipment management; suspension and debarment; subrecipient monitoring; program income; Davis-Bacon Act; 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, 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.

<b>Compliance Requirement</b>	<b>Major Program</b>	<b>Reference Number</b>
Allowable Costs/Cost Principles	Community Development Block Grants/Entitlement Grants	03-07
Cash Management	Community Development Block Grants/Entitlement Grants	03-09
Equipment Management	Community Development Block Grants/Entitlement Grants	03-06
	HOME Investment Partnerships Program	03-11
	Housing Opportunities For Persons With AIDS	03-14
	Section 8 Housing Choice Vouchers	03-16
	Lower Income Housing Assistance -Section 8 Moderate Rehabilitation HIV Emergency Relief Project Grants	03-15 03-19
Suspension and Debarment	Community Development Block Grants/Entitlement Grants	03-08
Subrecipient Monitoring	Community Development Block Grants/Entitlement Grants	03-10
	HIV Emergency Relief Project Grants	03-18
Program Income	HOME Investment Partnerships Program	03-13
Davis-Bacon Act	HOME Investment Partnerships Program	03-12
Special Test and Provisions	Section 8 Housing Choice Vouchers	03-17

In our opinion, except for the instances of non-compliance described in the preceding paragraph, 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, 2003.

### **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 03-06 to 03-19.

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, of the reportable conditions described above we consider item 03-10 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, 2003, which standard opinion was modified to state the recording of land, roads, and certain park infrastructure related assets as of July 1, 2001 utilizing the retroactive historical cost approach of Statement of Governmental Accounting Standards No. 34 and the restatement of the Municipality's net assets and the fund balance of the other governmental funds at June 30, 2002, and have issued our report thereon dated January 23, 2004. 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.

*Deloitte & Touche LLP*

January 23, 2004

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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 recording of land, roads, and certain park infrastructure related assets as of July 1, 2001 utilizing the retroactive historical cost approach of Statement of Governmental Accounting Standards No. 34 and the restatement of the Municipality’s net assets and the fund balance of the governmental funds at June 30, 2002.
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, some 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

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.

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2003
<b>Accounting and Finance Department</b>		
03-01	The Municipality's payroll register totals are not distributed in accordance with the general ledger accounts.	\$ -
03-02	The Municipality does not prepare periodic employee certifications. (Prior Report Finding Number 02-03)	-
03-03	The Municipality does not perform an annual property inventory. (Prior Report Finding Number 02-04)	-
03-04	The Municipality's capital projects disbursements handled by the Governmental Development Bank ("GDB") were not recorded on a timely basis.	-
03-05	The Municipality does not have procedures in place to verify the status of an entry as to suspensions and debarnments when contracting services or procuring goods with federal funds. (Prior Report Finding Number 02-05)	-
<b>Community Development Block Grant</b>		
03-06	The Municipality does not have adequate controls over property and equipment acquired with federal funds. (Prior Report Finding Number 02-07)	-
03-07	The Municipality does not have adequate controls over processing of disbursements of federal funds. (Prior Report Finding Number 02-08)	109,549
03-08	The Municipality did not obtain a certification from its subrecipients indicating that their organizations and it's principals were not suspended or debarred.	-
03-09	The Municipality does not have proper procedures to assure that all regulations are met when granting funds.	-
03-10	The Municipality does not have proper procedures to assure that grant funds assigned to subgrantees are properly monitored.	-
<b>Home Investment Partnerships Program</b>		
03-11	The Municipality does not have adequate controls over property and equipment acquired by the HOME Program. (Prior Report Finding Number 02-10)	-
03-12	The Municipality did not obtain payroll records on a timely manner as required by the Davis-Bacon Act.	-
03-13	Program income is not received on a timely basis.	-
<b>Housing Opportunities For Persons With AIDS</b>		
03-14	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOPWA Program. (Prior Report Finding Number 02-12)	-
<b>Lower Income Housing Assistance Program</b>		
03-15	The Municipality is not maintaining adequate controls over property and equipment items acquired by the Section 8 Moderate Rehabilitation Program.	-
<b>Section 8 Housing Choice Vouchers</b>		
03-16	The Municipality is not maintaining adequate controls over property and equipment items acquired by the Section 8 Housing Choice Vouchers Program. (Prior Report Finding 02-15)	-
03-17	The Municipality did not maintain an up-to-date utility allowance schedule.	-
<b>HIV Emergency Relief Projects Grants</b>		
03-18	The Municipality is not in compliance with subrecipient monitoring requirements.	-
03-19	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HIV Emergency Relief Project Grants Program.	-
<b>Total</b>		<b>\$ 109,549</b>

**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, 2003. 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, 2004. 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:

Name of Federal Program	CFDA Number	Federal Regulations	Federal Regulations/ Administrative Plan
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
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 \$109,549 for the year ended June 30, 2003. 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, 2003. 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 03-01**

### **Accounting and Finance Department**

#### **Topic Sentence**

The Municipality's payroll register totals are not distributed in accordance with the general ledger accounts.

#### **Category**

Internal Control

#### **Condition Found**

The Municipality's payroll reports cannot be reconciled with its corresponding general ledger payroll and related benefit accounts. In addition, existing payroll reports do not identify sources or related funds of federal programs being used to pay for salaries therein.

#### **Criteria**

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

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

#### **Underlying Cause**

The above situation was the result of payroll register having different account distributions than the general ledger.

#### **Effect**

The above situation may result in payments to employees who are not working or performing duties directly related to the federal programs from which they are being paid. Due to the large number of employees that work and are paid with federal program funds, and could not be identified. This may exposed the Municipality to cause 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 function.

## **Finding Number 03-02**

### **Payroll and Personnel**

#### **Topic Sentence**

The Municipality does not prepare periodic employee certifications. (Prior Report Finding Number 02-03)

#### **Category**

Internal Control/Compliance

#### **Condition Found**

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

#### **Criteria**

OMB Circular A-87, Attachment B, section 11(h)(3) establishes that 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 03-03**

### **Property Management**

#### **Topic Sentence**

The Municipality does not perform an annual property inventory. (Prior Report Finding Number 02-04)

#### **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 \$524.1 million as of June 30, 2003.

#### **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 disallowances 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 03-04**

### **Accounting and Finance Department**

#### **Topic Sentence**

The Municipality's capital projects disbursements handled by the Governmental Development Bank ("GDB"), were not recorded on a timely basis.

#### **Category**

Internal Control

#### **Condition Found**

During our expenditures test we noted that Municipality's expenditures amounting to \$20,683,224 of the capital projects fund, which had been incurred and recorded as of June 30, 2000, had also been incorrectly recorded during 2001 and 2002.

#### **Criteria**

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

1. Complete results of the Municipality's operations,
2. Proper and necessary financial information for the efficient administration of the Municipality,
3. Effective controls and the accountability of all 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.

Article 8.010, Section (d) of the Municipalities Law states that the Municipality shall establish appropriate controls in order to prevent irregularities. Furthermore, the controls should be sufficient to uncover misstatements and to guarantee the transparency of the fiscal procedures.

#### **Underlying Cause**

The Municipality's management has not established appropriate control procedures to oversee the capital projects operations. The Municipality's capital projects personnel is not adequately trained to perform the necessary accounting and internal control procedures.

#### **Effect**

The Municipality's failure to record capital projects disbursements handled by GDB on a timely basis resulted in inaccurate financial reports, and the restatement of the Municipality's basic financial statements for the year ended June 30, 2002.

#### **Known Questioned Costs**

None

#### **Recommendation**

The Municipality's management should establish control procedures to closely monitor the recording of capital projects.

## **Finding Number 03-05**

### **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 02-05)

#### **Category**

Compliance

#### **Condition Found**

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

#### **Criteria**

OMB Circular A-102, subpart C, section .35, establishes that 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**

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, 2003**

**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 03-06**

**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 02-07)

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Equipment and Real Property Management

### **Condition Found**

In testing compliance and internal controls over the equipment and real property management procedures, the following deficiencies were noted:

- For 63 out of 163 items (39%) selected for testing, the property and equipment records did not contain either: cost, purchase date, or serial number. Additionally, if any items were acquired in part with Federal funds, property records did not indicate the percentage of Federal participation in the cost of the property.
- Property records could not be reconciled with general ledger amounts.

### **Criteria**

The Municipality is not in compliance with the following regulations:

- 24 CFR 85.32(d)(1) which states that property records must be maintained and include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale price of the property.
- 24 CFR 85.20 (b)(2) which establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

### **Underlying Cause**

The Municipality has inadequate internal control procedures to prepare and record transactions in the fixed assets subsidiary ledger.

**Effect**

The lack of proper internal control procedures result in noncompliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency. Additionally, the continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds.

**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 03-07**

**Program:** Community Development Block Grant – CFDA # 14.218

### **Topic Sentence**

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

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Allowable Costs/Cost Principles

### **Condition Found**

In testing program transactions, the Municipality awarded a series of contracts to the San Juan Puerto Rico International Fashion Center Inc., for which a total of \$109,549 was awarded for advertisement expenses not allowed under OMB Circular A – 122.

### **Criteria**

- OMB Circular 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.
- OMB Circular A-122 Attachment B, paragraph 1f states that unallowable advertising and public relations costs include costs of meetings or other events related to fund raising or other organizational activities including: (i) Costs of displays, demonstrations, and exhibits; (ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and (iii) Salaries and wages of employees or cost of services engaged in setting up and displaying exhibits, making demonstrations, and providing briefings; Costs of promotional items and memorabilia, including models, gifts, and souvenirs; Costs of advertising and public relations designed solely to promote the organization.

### **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**

The lack of proper internal control procedures result in noncompliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency. This condition could result in the reimbursement of CDBG funds to the awarding agency for those disbursements that were not allowable or not supported. Thus, unallowable and unsupported costs will be considered as questioned costs.

### **Known Questioned Costs**

\$109,549

### **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. Follow-up procedures should be established with respect to the supporting documentation for advanced funds.

## **Finding Number 03-08**

**Program:** Community Development Block Grant – CFDA # 14.218

### **Topic Sentence**

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

### **Category**

Compliance

### **Compliance Requirement**

Suspension and Debarment

### **Condition Found**

In testing procurements, suspensions, and debarments, the Municipality was not able to provide evidence indicating that the required suspension and debarment certifications for one out of four (25%) covered contracts was obtained.

### **Criteria**

OMB Circular A-102, Subpart C, section .35, establishes that grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any time 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.

Furthermore, 24 CFR 570.490(k)(1) states that CDBG participants shall require participants in lower tier covered transactions to include a certification that neither it nor its principals are currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in the covered transaction, in any proposal submitted in connection with the lower tier covered transactions.

### **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**

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 03-09**

**Program:** Community Development Block Grant – CFDA # 14.218

**Topic Sentence**

The Municipality does not have proper procedures to assure that all regulations are met when granting funds.

**Category**

Internal Control/Compliance

**Compliance Requirement**

Cash Management

**Condition Found**

In testing compliance and internal controls over compliance with the cash management requirement procedures, we noted that a lump sum payment of \$250,000 was given to The Grow America Fund, Inc. for purposes of promoting and developing small businesses in order to generate and maintain employment.

**Criteria**

24 CFR 570.513, establishes that recipients may draw funds from the letter of credit in a lump sum to establish a rehabilitation fund in one or more private financial institutions for the purpose of financing the rehabilitation of privately owned properties. Accordingly, a lump sum payment for purposes of generating and maintaining employment is not in agreement with Federal regulations.

**Underlying Cause**

The exception noted is the result of inappropriate procedures in the preparation and review of contract agreements.

**Effect**

The lack of proper internal control procedures results in noncompliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency.

**Known Questioned Costs**

None

**Recommendation**

The Municipality should improve its internal control procedures to ensure compliance with federal regulations before entering into contracts with subgrantees.

## **Finding Number 03-10**

**Program:** Community Development Block Grant – CFDA # 14.218

### **Topic Sentence**

The Municipality does not have proper procedures to assure that grant funds assigned to subgrantees are properly monitored.

### **Category**

Internal Control

### **Compliance Requirement**

Subrecipient Monitoring

### **Condition Found**

In performing our test over Subrecipient Monitoring we noted the following deficiencies:

- The Municipality awarded a series of contracts to the San Juan Puerto Rico International Fashion Center Inc., for which the following exceptions were noted:
  - No Single Audit report was obtained from the San Juan International Fashion Center, even though \$1,280,000 was awarded by the Municipality for the period from June 29, 2001 to April 7, 2003.
  - No monitoring procedures were performed during the above-mentioned period, however several procedures were observed after June 30, 2003.
- Monthly Progress reports, as required by contract agreement, were past-due for two out of three (66%) of the sub-recipients' files examined.
- No tracking system exists to identify approaching deadlines for reports (i.e. performance reports, single audit reports) or corrective action plans. Accordingly, monitoring procedures were not adequate to ensure that subrecipient financial and performance reports were received and reviewed in a timely manner. In addition, no formal evidence exists of the review performed over single audit reports received and that such review was made within six months of their receipt, as required by Federal regulations.

### **Criteria**

- 24 CFR 85.40 (a) and (b), states that grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.
- Section 400 (d) of OMB Circular A-133, establishes that the Municipality should: (a) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (b) ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (c) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action; and (d) consider whether subrecipient audits needs adjustment of the pass-through entity's own records.

In addition, internal controls should provide reasonable assurance that subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated.

**Underlying Cause**

The above conditions are primarily due to the lack of an effective oversight by the Municipality's management over the monitoring of subrecipient's fiscal and programmatic operations. Other exceptions are the result of inappropriate follow up procedures on subgrantee compliance with agreement clauses.

**Effect**

Inadequate financial monitoring procedures may expose the Municipality to the risk that unallowable use of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of Federal funds. Additionally, program objectives may not be achieved, as timely monitoring of subgrantee performance is not adequately performed.

**Known Questioned Costs**

None

**Recommendation**

- Single audit reports should be obtained within the required time frame and its corresponding review should be performed and documented on a timely basis. The preparation of a review tool, such as a checklist is advisable. Management decisions resulting from this review should be clearly documented, as well as follow-up activities performed on single audit findings.
- Develop and implement policies to ensure that files are adequate and consistent and to ascertain that they include support for conclusions in monitoring reports. Subrecipient files should also include documentation on follow-up procedures performed on corrective action implementation.
- Develop a tracking system that alerts staff to approaching deadlines for reports and corrective action plans. Follow up intensively to obtain acceptable corrective action plans in a timely manner. Subrecipient tracking documents should be developed and maintained for management decision and audit purposes.
- Review current monitoring guides to ensure that they include steps to obtain reasonable assurance that subrecipients are complying with applicable Federal regulations. In addition, the Municipality should assign sufficient resources to enable the performance of adequate monitoring of the subrecipients, specifically for the programmatic area.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO  
YEAR ENDED JUNE 30, 2003**

**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 03-11**

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

### **Topic Sentence**

The Municipality does not have adequate controls over property and equipment acquired by the HOME program. (Prior Report Finding 02-10)

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Equipment and Real Property Management

### **Condition Found**

In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The property and equipment records provided did not contain cost nor were properly identified as to whether the assets were acquired with federal funds. Additionally, if any items were acquired in part with Federal funds, property records did not indicate the percentage of Federal participation in the cost of this property.
- Property records could not be reconciled with general ledger amounts.

### **Criteria**

The Municipality is not in compliance with the following regulations:

- 24 CFR 85.32(d)(1), which states that property records must be maintained and include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale price of the property.
- 24 CFR 85.20 (b)(2) which establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

### **Underlying Cause**

The Municipality has inadequate internal control procedures to prepare and record transactions in the fixed assets subsidiary ledger.

### **Effect**

The lack of proper internal control procedures results in noncompliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency. Additionally, the continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds.

**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.

## **Finding Number 03-12**

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

### **Topic Sentence**

The Municipality did not obtain payroll records on a timely manner as required by the Davis-Bacon Act.

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Davis-Bacon Act

### **Condition Found**

In performing our test over compliance with the Davis-Bacon Act, we noticed that one out of nine (11%) construction certifications examined was not supported by copies of the corresponding payrolls. This exception relates to the certification for the month of September 2002 for contract No. 2003-000482. We further noticed that no payroll reports were obtained for the certifications related to the period from August to October 2002 of the same contract.

### **Criteria**

29 CFR 5.5(a)(3)(ii)(A) establishes that, the contractor shall submit weekly, for each week in which any contract work is performed, a copy of all payrolls to the awarding Federal agency if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the awarding agency. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR Part 5.

### **Underlying Cause**

The exceptions mentioned above are the results of not maintaining effective follow up procedures for obtaining all required documents as stated in the contract agreement.

### **Effect**

The lack of proper internal control procedures results in noncompliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency.

### **Known Questioned Costs**

None

### **Recommendation**

The Municipality's personnel should be adequately trained to identify and act upon instances of non-compliance with contractors. Additionally, a communication should be sent to all contractors reminding the importance of submitting all required supporting document with each certification.

## **Finding Number 03-13**

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

### **Topic Sentence**

Program income is not recorded on a timely basis.

### **Category**

Compliance

### **Compliance Requirement**

Program Income

### **Condition Found**

We obtained a detail from the Municipality indicating the properties sold during the year and amount received from the sale. By examining such detail, we noticed that the amount of \$380,991 was not properly recorded in Program accounts. Of such amount, \$189,892 relates to fiscal year 2002-2003 and \$191,099 to fiscal year 2001-2002.

### **Criteria**

According to 24 CFR 92.254 (a)(5)(ii), recapture provisions must ensure that the participating jurisdiction recoups all or a portion of the HOME assistance to the home-buyer, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability. The participating jurisdiction may structure its recapture provisions based on its program design and market conditions.

Additionally, 24 CFR 92.503(c) HOME funds recaptured in accordance with §92.254(a)(5)(ii) must be used in accordance with the requirements of this part. Recaptured funds must be deposited in the participating jurisdiction's HOME Investment Trust Fund local account unless the participating jurisdiction permits the State recipient, or community housing development organization to retain the recaptured funds for additional HOME projects pursuant to the written agreement required by §92.504. If the jurisdiction is not a participating jurisdiction when the recaptured funds are received, the funds must be remitted to HUD and reallocated in accordance with §92.504.

### **Underlying Cause**

The above condition is the result of the lack of monitoring procedures over the use of funds generated by program income to ensure compliance with the program's regulations.

### **Effect**

Failure to report timely information prevents the Federal 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. In addition, the Municipality could also be exposed to cost disallowances or adjustments to the grant already awarded.

### **Known Questioned Costs**

None

### **Recommendation**

The Municipality should implement internal control policies and procedures to ensure that program income generated in the operation of projects directly supported by the HOME program are used to further the project objectives. The procedures that should be implemented should include the establishment of budget and accounting controls for such program income. The accounting records should provide adequate documentary evidence to demonstrate that the program income is being used in conformity with the HOME program purposes and Federal requirements.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO  
YEAR ENDED JUNE 30, 2003**

**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: 03-14**

**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. (Prior Report Finding Number 02-12)

**Category**

Internal Control/Compliance

**Compliance Requirement**

Equipment Management

**Condition Found**

In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The property and equipment records provided did not contain cost nor were properly identified as to whether the assets were acquired with federal funds. Additionally, if any items were acquired in part with Federal funds, property records did not indicate the percentage of Federal participation in the cost of this property.
- Property records could not be reconciled with general ledger amounts.
- There are no established procedures or controls that ensure an immediate update of property records when an item of property or equipment is either transferred from one location to another or is disposed of. Without this information the Municipality does not know if it is responsible for compensating the corresponding Federal awarding agencies for their share of any property sold or converted to non-federal use.

**Criteria**

The Municipality is not in compliance with the following regulations:

- 24 CFR 85.32(d)(1), which states that property records must be maintained and include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale price of the property.
- 24 CFR 85.20 (b)(2) which establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

**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, 2003**

**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 03-15**

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

### **Topic Sentence**

The Municipality is not maintaining adequate controls over property and equipment items acquired by the Section 8 Moderate Rehabilitation Program.

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Equipment Management

### **Condition Found**

In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The property and equipment records provided did not contain cost nor were properly identified as to whether the assets were acquired with federal funds. Additionally, if any items were acquired in part with Federal funds, property records did not indicate the percentage of Federal participation in the cost of this property.
- Property records could not be reconciled with general ledger amounts.
- There are no established procedures or controls that ensure an immediate update of property records when an item of property or equipment is either transferred from one location to another or is disposed of. Without this information the Municipality does not know if it is responsible for compensating the corresponding Federal awarding agencies for their share of any property sold or converted to non-federal use.

### **Criteria**

The Municipality is not in compliance with the following regulations:

- 24 CFR 85.32(d)(1), which states that property records must be maintained and include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale price of the property.
- 24 CFR 85.20 (b)(2), which establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

### **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, 2003**

**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 03-16**

**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. (Prior Report Finding Number 02-15)

### **Category**

Internal Control/Compliance

### **Compliance Requirement**

Equipment Management

### **Condition Found**

In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The property and equipment records provided did not contain cost nor were properly identified as to whether the assets were acquired with federal funds. Additionally, if any items were acquired in part with Federal funds, property records did not indicate the percentage of Federal participation in the cost of this property.
- Property records could not be reconciled with general ledger amounts.
- There are no established procedures or controls that ensure an immediate update of property records when an item of property or equipment is either transferred from one location to another or is disposed of. Without this information the Municipality does not know if it is responsible for compensating the corresponding Federal awarding agencies for their share of any property sold or converted to non-federal use.

### **Criteria**

The Municipality is not in compliance with the following regulations:

- 24 CFR 85.32(d)(1), which states that property records must be maintained and include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale price of the property.
- 24 CFR 85.20 (b)(2) which establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

### **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.

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.

**Finding Number 03-17**

**Program:** Section 8 Housing Choice Vouchers – CFDA# 14.871

**Topic Sentence**

The Municipality did not maintain an up-to-date utility allowance schedule.

**Category**

Compliance

**Compliance Requirement**

Special Tests and Provisions

**Condition Found**

In testing special tests and provisions over the Utility Allowance Schedule, we obtained the last Utility Allowance Analysis performed and the last Utility Allowance Schedule. By examining such documents we noted the following exceptions:

- Data used to perform the analysis was outdated as it relates to the period from January 2001 to December 2001.
- Utility allowance per the analysis had a change of more than 10% when compared to the allowance per schedule in the following ways:

<u>0 Bed Rooms</u>			<u>2 Bed Rooms</u>		
<u>Analysis</u>	<u>Schedule</u>	<u>Change</u>	<u>Analysis</u>	<u>Schedule</u>	<u>Change</u>
\$ 16.14	\$ 21	(23%)	\$ 62.70	\$ 49	28%

- No change was made to the 2002-2003 Utility Allowance Schedule.

**Criteria**

24 CFR 982.517(a)(1) and (c)(1), establishes that the Municipality must maintain a utility allowance schedule for all tenant-paid utilities (except telephone), for cost of tenant-supplied refrigerators and ranges, and for other tenant-paid housing services (e.g., trash collection (disposal of waste and refuse). The Municipality must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there PHAs been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

**Underlying Cause**

The Municipality has not ensured that the utility allowance complies with those minimum requirements due to the lack of understanding of the applicable Federal regulations.

**Effect**

The Municipality may be providing utility assistance for amounts not in compliance with Federal regulations, which may expose the Municipality to cost disallowances by the federal awarding agency.

**Known Questioned Costs**

None

**Recommendation**

The Municipality should perform a utility allowance analysis using the most recent information available. Additionally, a change to the utility allowance schedule should be performed in order to reflect the updated allowance.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO  
YEAR ENDED JUNE 30, 2003**

**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 03-18**

**Program:** HIV Emergency Relief Project Grants – CFDA# 93.914

### **Topic Sentence**

The Municipality is not in compliance with subrecipient monitoring requirements.

### **Category**

Compliance/Internal Control

### **Compliance Requirement**

Subrecipient Monitoring

### **Condition Found**

- The Municipality does not have proper procedures to identify all subrecipients that met the criteria for a single audit.
- No tracking system exists to identify approaching deadlines for reports (i.e. performance reports, single audit reports) or corrective action plans. Accordingly, monitoring procedures were not adequate to ensure that subrecipient financial and performance reports were received and reviewed in a timely manner. In addition, no formal evidence exists of the review performed over single audit reports received and that such review was made within six months of their receipt, as required by Federal regulations.
- A monitoring report prepared by the Municipality's AIDS Task Force in August 2000 over the Ryder Memorial Hospital revealed questioned costs of \$352,094. Questioned costs were subsequently confirmed by an audit performed by the Office of the Inspector General (OIG) and reimbursed to the federal grantor by the Municipality on October 31, 2003. A total of \$985,179 was granted to the mentioned subgrantee during fiscal year 2003.
- The Municipality does not give proper attention to the programmatic area of subrecipients' monitoring performed.

### **Criteria**

Section 400 (d) of OMB Circular A-133 establishes that the Municipality should: (a) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (b) ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (c) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action; and (d) consider whether subrecipient audits needs adjustment of the pass-through entity's own records.

In addition, internal controls should provide reasonable assurance that subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated.

### **Underlying Cause**

The above conditions are primarily due to the lack of a strong oversight by the Municipality's management over the monitoring of subrecipient's fiscal and programmatic operations. Other causes for this exception include the lack of communication among the different personnel responsible for the administration of Federal programs at the Municipality.

**Effect**

Inadequate financial monitoring procedures may expose the Municipality to the risk that unallowable use of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of Federal funds.

**Known Questioned Costs**

None because the questioned costs of \$352,094 were reimbursed by the Municipality to the federal grantor on October 31, 2003.

**Recommendation**

- Single audit reports should be obtained within the required time frame and its corresponding review should be performed and documented on a timely basis. The preparation of a review tool, such as a checklist is advisable. Management decisions resulting from this review should be clearly documented, as well as follow-up activities performed on single audit findings.
- Develop and implement policies to ensure that files are adequate and consistent and to ascertain that they include support for conclusions in monitoring reports. Subrecipient files should also include documentation on follow-up procedures performed on corrective action implementation.
- Develop a tracking system that alerts staff to approaching deadlines for reports and corrective action plans. Follow up intensively to obtain acceptable corrective action plans in a timely manner. Subrecipient tracking documents should be developed and maintained for management decision and audit purposes.
- Review current monitoring guides to ensure that they include steps to obtain reasonable assurance that subrecipients are complying with applicable Federal regulations. In addition, the Municipality should assign sufficient resources to enable the performance of adequate monitoring of the subrecipients, specifically for the programmatic area.

**Finding Number 03-19**

**Program:** HIV Emergency Relief Project Grants – CFDA# 93.914

**Topic Sentence**

The Municipality is not maintaining adequate controls over property and equipment items acquired by the HIV Emergency Relief Project Grants Program.

**Category**

Internal Control/Compliance

**Compliance Requirement**

Equipment Management

**Condition Found**

In testing compliance and internal controls over compliance with the equipment and real property management requirement, the following deficiencies were noted:

- The property and equipment records provided did not contain cost nor were properly identified as to whether the assets were acquired with federal funds. Additionally, if any items were acquired in part with federal funds, property records did not indicate the percentage of Federal participation in the cost of this property.
- Property records could not be reconciled with general ledger amounts.
- There are no established procedures or controls that ensure an immediate update of property records when an item of property or equipment is either transferred from one location to another or is disposed of. Without this information the Municipality does not know if it is responsible for compensating the corresponding Federal awarding agencies for their share of any property sold or converted to non-federal use.

**Criteria**

The Common Rule §.32(d)(1) states that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds 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 disposal and sale 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.

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.



*San Juan*  
**Ciudad Capital**



*"Hacia el San Juan Soñado"*

**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, 2002 as required by OMB Circular A-133.

**MUNICIPALITY OF SAN JUAN, PUERTO RICO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2003**

<u>Reference Number</u>	<u>Finding Description</u>	<u>Questioned Costs</u>	<u>Status</u>
<b>Accounting and Finance Department</b>			
02-01	The Municipality incurred expenditures in excess of the level of funds appropriated and available	\$ -	Corrective Action Plan was implemented to correct the situation.
02-02	The Municipality does not have adequate controls over payroll of employees working for federal programs.	-	Situation still prevails. Refer to Finding 03-01 and related Corrective Action Plan.
02-03	The Municipality does not prepare periodic employee certifications	-	Situation still prevails. Refer to Finding 03-02 and related Corrective Action Plan.
02-04	The Municipality does not perform an annual property inventory.	-	Situation still prevails. Refer to Finding 03-03 and related Corrective Action Plan.
02-05	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 funds.	-	Situation still prevails. Refer to Finding 03-05 and related Corrective Action Plan.
<b>Community Development Block Grant/Entitlement Grants</b>			
02-06	An inaccurate financial report was submitted to Federal Government.	-	Corrective Action Plan was implemented to correct the situation.
02-07	The Municipality does not have adequate controls over property and equipment acquired with federal funds.	-	Situation still prevails. Refer to Finding 03-06 and related Corrective Action Plan.
02-08	The Municipality does not have adequate controls over processing of disbursements financed with federal funds.	10,200	Corrective Action Plan was implemented to correct the situation.
<b>Home Investments Partnership Program</b>			
02-09	Controls over eligibility of HOME participants are ineffective.	30,000	Corrective Action Plan was implemented to correct the situation.
02-10	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOME Program.	-	Situation still prevails. Refer to Finding 03-11 and related Corrective Action Plan.
<b>Housing Opportunities For Persons With AIDS</b>			
02-11	The Municipality did not obtain a certification from its subrecipients indicating that their organization and it's principals were not suspended or debarred.	-	Corrective Action Plan was implemented to correct the situation.
02-12	The Municipality is not maintaining adequate controls over property and equipment items acquired by the HOPWA Program.	-	Situation still prevails. Refer to Finding 03-14 and related Corrective Action Plan.
<b>Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation</b>			
02-13	The Municipality filed HUD Form 52681 with amounts that do not agree with the general ledger.	-	Corrective Action Plan was implemented to correct the situation.

**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.

- Corrective Action Plan was implemented to correct the situation

02-15

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

1.701 Situation still prevails. Refer to Finding 03-16 and related Corrective Action Plan.

**Public Safety Partnership**

**and Community Policing Grants**

02-16

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

- Corrective Action Plan was implemented to correct the situation.

**Head Start**

02-17

Several of the Municipality's Head Start child care centers did not have current fire and health department licenses and permits.

- Corrective Action Plan was implemented to correct the situation.

02-18

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

- Corrective Action Plan was implemented to correct the situation.

**HIV Emergency Relief Project Grants**

02-19

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

- Corrective Action Plan was implemented to correct the situation.

**Workforce Investment**

**Act (WIA)**

02-20

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

- Corrective Action Plan was implemented to correct the situation.

02-21

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

- Corrective Action Plan was implemented to correct the situation.

02-22

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

- Corrective Action Plan was implemented to correct the situation.

02-23

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

- Corrective Action Plan was implemented to correct the situation.

02-24

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

- Corrective Action Plan was implemented to correct the situation.

\$ 41,901

**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, 2003**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures
<b><u>Department of Housing and Urban Development (HUD)</u></b>		
Section 8 Housing Choice Vouchers	14.871	\$ 21,327,033
Community Development Block Grants/Entitlement Grants	14.218	13,667,948
HOME Investment Partnerships Program	14.239	9,318,840
Housing Opportunities for Persons with AIDS	14.241	5,392,738
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	3,601,066
Emergency Shelter Grants Program	14.231	585,453
Supportive Housing Program	14.235	577,973
Community Development Block Grants_Section 108 Loan Guarantees	14.248	284,251
Home Ownership Zone Program-Cantera Peninsula Homeownership Zone	14.HZ97-020	178,339
<b><u>Department of Health and Human Services (HHS)</u></b>		
Head Start	93.600	24,529,691
HIV Emergency Relief Project Grants	93.914	19,274,640
Substance Abuse and Mental Health Services	93.243	538,199
Mental Health Clinical and AIDS Services	93.244	616,152
Health Center Grants for Homeless Populations (HCH)	93.151	150,732
Cancer Control	93.399	322,500
<b>Pass-through from Commonwealth of Puerto Rico Families and Child Administration:</b>		
Community Services Block Grant	93.569	3,497,094
<b>Pass-through from Commonwealth of Puerto Rico Governor's Office:</b>		
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	768,139
<b>Pass-through from Commonwealth of Puerto Rico-WESTAT</b>		
National Health Institute-WESTAT	93.XXX	826,737
<b>Pass-through from Commonwealth of Puerto Rico Department of Health:</b>		
Immunization Grants	93.268	475,149
Family Planning-Services	93.217	2,229
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	45
Maternal and Child Health Services Block Grant to the States	93.994	216,278
HIV Demonstration, Research, Public and Professional Education Projects	93.941	192,377
<b><u>Department of Labor (DOL)</u></b>		
<b>Pass-through the Commonwealth of Puerto Rico Right to Employment Administration:</b>		
Workforce Investment Act (WIA)	17.255	15,516,660
Welfare-to-Work Grants to States and Localities	17.253	57,736
<b><u>Department of Justice (DOJ)</u></b>		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	2,571,117
Drug Free Communities Support Program Grants	16.729	53,336
Bulletproof Vest Partnership Program	16.607	14,000
<b>Pass-through from Commonwealth of Puerto Rico Department of Justice:</b>		
Local Law Enforcement Block Grants Program	16.592	80,808
Crime Victim Assistance	16.575	90,378
Alcohol, Tobacco and Firearms Training Assistance	21.052	89,380
<b><u>Department of Education (ED)</u></b>		
Federal Pell Grant Program (PELL)	84.063	2,387,641
TRIO Student Support Services	84.042	316,543
Higher Education - Institutional Aid - Strengthening Institutions Program	84.031	230,688
Federal Work-Study Program (FWS)	84.033	60,660
<b><u>Department of Agriculture (USDA)</u></b>		
<b>Pass-through from Commonwealth of Puerto Rico Department of Education:</b>		
Child and Adult Care Food Program (CACFP)	10.558	1,491,145
Child Care and Development Block Grant (CCDF)	93.575	19,272
<b><u>Department of Transportation (DOT)</u></b>		
Federal Transit-Capital Investment Grants	20.500	824,626
<b><u>Corporation for National and Community Service</u></b>		
<b>Pass-through from Commonwealth of Puerto Rico Department of Health:</b>		
Foster Grandparent Program	94.011	70,450
Retired and Senior Volunteer Program	94.002	388,648
<b><u>Department of Homeland Security</u></b>		
Emergency Management Performance Grants	97.042	16,299
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b>\$ 130,622,990</b>

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, 2003

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- 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	\$ 130,622,990
Nonfederal programs included in the special revenue funds	<u>153,461</u>
Total special revenue funds	130,776,451
Capital projects funds	<u>42,176,626</u>
Other governmental funds column in the fund financial statements	<u>\$ 172,953,077</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	\$ 1,568,700
Community Development Block Grants/Entitlement Grants	14.218	3,061,662
HOME Investment Partnerships Program	14.239	2,033,699
Housing Opportunities for Persons with AIDS	14.241	1,906,587
Substance Abuse and Mental Health Services	93.243	940,460
Mental Health Clinical and AIDS Services	93.244	1,168,648
Community Services Block Grant	93.569	88,678
Head Start	93.600	3,042,034