

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN LORENZO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO**

**INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS**

JUNE 30, 2001

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO, PUERTO RICO
INDEPENDENT AUDITORS' REPORTS ON
GENERAL-PURPOSE COMBINED FINANCIAL STATEMENTS
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REQUIRED BY THE GOVERNMENT AUDITING STANDARDS
AND THE OMB CIRCULAR A-133)**

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PART I
FINANCIAL



INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of San Lorenzo, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of San Lorenzo, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

The **Municipality** accounting system and records of property, plant and equipment did not include all transactions that should be capitalized and evidence of ownership in some real property on the General Fixed Assets Account Group. We were unable to obtain sufficient competent evidential matters through audit procedures to satisfy ourselves regarding the reasonableness of the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amount represent in the General Fixed Assets Account Group.

In our opinion, except for the effect, if any, as might have determined to be necessary had we been able to audit the fixed assets of the General Fixed Assets Account Group, as explained in above paragraph, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **Municipality**, as of June 30, 2001, and the results of operations and changes in the fund balances for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2001 on our consideration of the **Municipality's** internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITORS' REPORT

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


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 2, 2001



MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
ASSETS AND OTHER DEBITS:							
Cash and Investments (Notes 1 E And 2)	\$ 1,843,538	\$ 1,947,865	\$ -	\$ -	\$ -	\$ -	\$ 3,791,403
Cash with Fiscal Agent (Note 1 E).....	-	342,841	337,428	1,422,730	-	-	2,102,999
Receivables:							
Property Taxes (Note 8)	-	-	-	23,778	-	-	23,778
Federal Grants (Note 10).....	-	427,062	-	-	-	-	427,062
Governmental Units	-	60,770	-	-	-	-	60,770
Others Funds (Note 3)	457,860	531,103	444,180	-	-	-	1,433,143
Property, Plant and Equipment (Note 5).....	-	-	-	-	15,417,518	-	15,417,518
Amount Available in Debt Service Fund (Note 7)	-	-	-	-	-	1,434,547	1,434,547
Amount to be Provide for Payment of:							
General Long-Term Debt (Note 6).....	-	-	-	-	-	3,315,834	3,315,834
Advance Property Taxes (Note 8).....	-	-	-	-	-	864,904	864,904
Intergovernmental Advance (Note 10) ..	-	-	-	-	-	280,272	280,272
State Health Insurance Plan (Note 6) ..	-	-	-	-	-	711,250	711,250
Solid Waste Disposal Debt (Note 6)	-	-	-	-	-	469,222	469,222
Vested Compensated Absences (Note 1 H)	-	-	-	-	-	685,646	685,646
TOTAL ASSETS AND OTHER DEBITS	\$ 2,301,398	\$ 3,309,641	\$ 781,608	\$ 1,446,508	\$15,417,518	\$ 7,761,675	\$31,018,348

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts Payable and Accrued Liabilities.....	\$ 58,681	\$ 265,878	\$ -	\$ -	\$ -	\$ -	\$ 324,559
Due to:							
Government Units (Note 4).....	4,599	-	-	-	-	-	4,599
Other Funds (Note 3).....	975,283	445,899	-	11,961	-	-	1,433,143
Deferred Revenues:							
Volume of Business Tax (Note 9)	1,656,020	-	-	-	-	-	1,656,020
Local Grants (Note 10)	-	-	-	-	-	-	-
Federal Grants (Note 10).....	-	1,469,961	-	-	-	-	1,469,961
Long-Term Debts:							
General Obligations Bonds (Note 6)	-	-	-	-	-	2,880,000	2,880,000
Special Obligations Notes (Note 6).....	-	-	-	-	-	1,870,381	1,870,381
Advances of Property Taxes (Note 8)...	-	-	-	-	-	864,904	864,904
Intergovernmental Advances (Note 10)	-	-	-	-	-	280,272	280,272
State Health Insurance Plan (Note 6) ...	-	-	-	-	-	711,250	711,250
Solid Waste Disposal Debt (Note 6)	-	-	-	-	-	469,222	469,222
Vested Compensated Absences (Note 1 H)	-	-	-	-	-	685,646	685,646
TOTAL LIABILITIES	2,694,583	2,181,738	-	11,961	-	7,761,675	12,649,957

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
FUND EQUITY (DEFICIT):							
Investment in Property, Plant and Equipment (Note 5).....	\$ -	\$ -	\$ -	\$ -	\$15,417,518	\$ -	\$15,417,518
Fund Balance (Deficit):							
Reserved for Encumbrances (Note 1 K)	398,525	-	-	-	-	-	398,525
Unreserved:							
Designated for Debt Service (Note 1K).....	-	-	-	1,434,547	-	-	1,434,547
Designated for Future Expenditures ...		1,127,903	781,608	-	-	-	1,909,511
Undesignated (Deficit)	<u>(791,710)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(791,710)</u>
TOTAL FUND EQUITY	<u>(393,185)</u>	<u>1,127,903</u>	<u>781,608</u>	<u>1,434,547</u>	<u>15,417,518</u>	<u>-</u>	<u>18,368,391</u>
TOTAL LIABILITIES AND FUND EQUITY (DEFICIT)	<u>\$ 2,301,398</u>	<u>\$ 3,309,641</u>	<u>\$ 781,608</u>	<u>\$ 1,446,508</u>	<u>\$15,417,518</u>	<u>\$ 7,761,675</u>	<u>\$31,018,348</u>

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

DFB

FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
REVENUES					
Property Taxes (Note 8)	\$ 2,547,077	\$ -	\$ -	\$ 734,414	\$ 3,281,491
Volume of Business Taxes (Note 9)	1,229,760	-	-	-	1,229,760
Federal Assistance (Note 10)	-	2,034,606	-	-	2,034,606
Intergovernmental (Note 10).....	4,216,557	2,328,525	-	-	6,595,082
Licenses and Permits	689,647	-	-	-	689,647
Miscellaneous.....	189,404	-	-	-	189,404
TOTAL REVENUES	8,922,445	4,363,131	-	734,414	14,019,990
EXPENDITURES					
Current:					
Mayor and Municipal Legislature	742,591	-	-	-	742,591
General Government	3,329,073	1,140,563	-	-	4,469,636
Public Safety.....	434,819	101,060	-	-	535,879
Public Works	1,870,814	10,965	-	-	1,881,779
Culture and Recreation.....	387,676	-	-	-	387,676
Sanitation	422,337	-	-	-	422,337
Solid Waste Disposal.....	-	605	-	-	605
Human Services and Welfare	-	1,021,290	-	-	1,021,290
Urban Development.....	-	642,845	2,294,162	-	2,937,007
Capital Outlays	60,780	11,950	-	-	72,730
Amortization of Property Taxes Advances.....	1,007,066	-	-	-	1,007,066
Debt Service:					
Principal Retirement (Notes 6 and 7).....	-	-	-	603,204	603,204
Interest Payment	-	-	-	229,260	229,260
TOTAL EXPENDITURES	8,255,156	2,929,278	2,294,162	832,464	14,311,060
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	667,289	1,433,853	(2,294,162)	(98,050)	(291,070)

verified by CPA 16/1/02

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

FOR THE YEAR ENDED JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
OTHER FINANCIAL SOURCES (USES):					
Property Taxes Advances (Note 8).....	\$ 974,186	\$ -	\$ -	\$ -	\$ 974,186
Proceed of Note.....	-	-	-	-	-
Intergovernmental Advances.....	-	-	-	-	-
Operating Transfer In	-	-	2,163,528	384,675	2,548,203
Operating Transfer Out.....	(384,675)	(2,163,528)	-	-	(2,548,203)
TOTAL OTHER FINANCING SOURCES (USES)	589,511	(2,163,528)	2,163,528	384,675	974,186
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	1,256,800	(729,674)	(130,634)	286,625	683,116
Fund Balances (Deficit), as Restated, at Beginning of Year (Note 13)	(1,649,985)	1,857,578	912,242	1,147,922	2,267,757
FUND BALANCES (DEFICIT) AT END YEAR	(\$ 393,185)	\$ 1,127,903	\$ 781,608	\$ 1,434,547	\$ 2,950,873

*END. 9. 20
adj. (1,380,865)
(1,269,180) adj
16,499,985*

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

FOR THE YEAR ENDED JUNE 30, 2001

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES						
Property Taxes Advances	\$ 1,859,314	\$ 1,859,314	\$ -	\$ 563,622	\$ 734,414	\$ 170,792
Volume of Business Taxes	1,396,727	1,229,760	(166,967)	-	-	-
Intergovernmental.....	4,204,188	4,116,557	(87,631)	-	-	-
Licenses and Permits	1,161,709	689,647	(472,062)	-	-	-
Miscellaneous.....	67,950	189,404	121,454	-	-	-
TOTAL REVENUES.....	8,689,888	8,084,682	(605,206)	563,622	734,414	170,792
EXPENDITURES AND ENCUMBRANCES						
Mayor and Municipal Legislature	858,502	803,336	55,166	-	-	-
General Government:						
Finance	3,350,139	2,757,439	592,700	-	-	-
Personnel	191,254	166,608	24,646	-	-	-
Insurance	149,680	141,644	8,036	-	-	-
Public Safety.....	474,473	453,281	21,192	-	-	-
Public Works	2,250,804	1,985,962	264,842	-	-	-
Culture and Recreation.....	470,464	392,933	77,531	-	-	-
Sanitation	415,233	348,810	66,423	-	-	-
Capital Outlays	93,517	60,780	32,737	-	-	-
Amortization of Property Tax Advance .	32,880	32,880	-	-	-	-
Debt Services	-	-	-	563,622	832,464	(268,842)
TOTAL EXPENDITURES AND ENCUMBRANCES	8,286,946	7,143,673	1,143,273	563,622	832,464	(268,842)
EXCESS OF REVENUES Over (Under) Expenditures and Encumbrances.....	402,942	941,009	538,067	-	(98,050)	(98,050)

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

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

FOR THE YEAR ENDED JUNE 30, 2001

	GENERAL			DEBT SERVICE		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCIAL SOURCES (USES):						
Operating Transfer In (Out)	<u>(\$ 402,942)</u>	<u>(\$ 384,675)</u>	<u>\$ 18,267</u>	<u>\$ -</u>	<u>\$ 384,675</u>	<u>\$ 384,675</u>
Excess of Revenues and Other Sources (Uses) Over Expenditures And Other Uses	<u>\$ -</u>	<u>556,334</u>	<u>\$ 556,334</u>	<u>\$ -</u>	<u>286,625</u>	<u>\$ 286,625</u>
Adjustment Required Under Generally Accepted Accounting Principles:						
Net Change in Encumbrance		(63,770)			-	
Change in Non budget Items		764,236			-	
Fund Balance (Deficit), as Restated at Beginning of Year (Note 13)		<u>(1,649,985)</u>			<u>1,147,922</u>	
FUND BALANCE (DEFICIT) AT END OF YEAR		<u>(\$ 393,185)</u>			<u>\$ 1,434,547</u>	

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of San Lorenzo, Puerto Rico (Municipality)** was founded in the year 1811, and operates as a governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the **Municipality** is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 14 municipal legislators also elected in the general elections of Puerto Rico for a four-year period.

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

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

A. Financial Reporting Entity

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

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

The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

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

B. Basis of Presentation

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

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

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

B. Basis of Presentation (continuation)

GOVERNMENTAL FUNDS

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

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

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

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

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

ACCOUNT GROUPS

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

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

General Fixed Assets Account Group – This account group is used to account for all general fixed assets of the **Municipality**.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. The governmental fund types follow the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty days, to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the years to which they apply.

In applying the "susceptible to accrual" concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially three types of these revenues. For one type, moneys must be expended on the specific purpose or project before any amounts will be paid to the **Municipality**; therefore, revenues are recognized based upon the expenditures recorded.

For the second type, moneys are received in advance and recorded as deferred revenues until the appropriate expenditures are made, at which time the revenues are recorded.

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

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

C. Basis of Accounting (continuation)

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

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

D. Budgetary Accounting

The Municipality's Annual Budget is prepared on the budgetary basis of accounting and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior the beginning of the fiscal year. Budgetary control is maintained at the department level for each individual appropriation. Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the general purpose financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
5. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the general-purpose financial statements.
6. Budgetary data for the Special Revenue Fund has not been presented in the accompanying combined financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

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

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

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

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

D. Budgetary Accounting (continuation)

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

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

E. Cash and Investment

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

Cash with Fiscal Agent represents property tax collections retained by the Municipal Revenues Collection Center and Government Development Bank of the Commonwealth of Puerto Rico. Debt Service Funds is restricted for the payment of the **Municipality's** obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements.

F. Inventories

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

G. General Fixed Assets

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

H. Vested Compensated Absences

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave, or upon retirement, terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The **Municipality** accrues a liability for compensated absences, which meet the following criteria: (1) the **Municipality's** obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) Payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by **GASB Number 16**, the **Municipality** has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. The liability for compensated absences, which will not require the use of expendable available financial resource, is included in the General Long-Term Debt Account Group.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continuation)

I. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

J. Interfund Transactions

The Municipality has the following types of transactions among funds:

Operating Transfers – Legally required transfers that are reported when incurred as "Operating transfers-in" by the recipient funds and as "Operating transfers-out" by the disbursing fund.

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

K. Reservations of Fund Balance

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

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

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

Fund Deficit in the General Fund is primarily attributable to prior year adjustments due to unrecorded debts and cash accounts reconciliation. The deficit is expected to decrease in the future as a result of a plan to reduce expenditures, obtain additional sources of revenues, and appropriation in annual budget as require by State Municipal Law.

L. Claims and Judgments

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

M. Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

Investments consist of certificates of deposit. The Municipality's cash and investments at year-end were entirely covered by the Federal Deposit Insurance Corporation (FDIC) coverage, up to a maximum of \$100,000 in each bank, and the excess by collateral provided by the banks and held by the Department of the Treasury pursuant the applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank of Puerto Rico and is not collateralized.

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

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 2 CASH AND INVESTMENTS (continuation)

During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit. As June 30, 2001, the General Fund has the following investment, which market value approximated its carrying:

Issued by	Certificate of Deposit Number	Principal Amount	Interest Rate	Expiration Date
Oriental Group	18271	\$ 400,000	4.50%	08-23-01
Oriental Group	17030	400,000	5.15%	07-18-01
Eurobank	2205003327	400,000	5.12%	07-19-01
	TOTAL	\$1,200,000		

NOTE 3 INTERFUND RECEIVABLE AND PAYABLE BALANCES

Short-term advances between funds are accounted for in the interfund receivable and payable accounts. Interfund receivable and payable balances at June 30, 2001 consist of the follows:

	INTERFUND	
	RECEIVABLE	PAYABLE
General:		
Cash Transfers and Operational Loans	\$ 445,899	\$ 975,283
Interest on CAE Bank Account	11,961	-
Special Revenue:		
Cash Transfers and Operational Loans	531,103	445,899
Capital Project:		
Cash Transfers and Operational Loans	444,180	-
Debt Service:		
Interest in CAE Bank Account	-	11,961
TOTAL	\$1,433,143	\$1,433,143

NOTE 4 DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2001, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Water and Sewer Authority	\$ 318
Others	4,281
TOTAL	\$ 4,599

The Municipality also due the amount of \$711,250 to State Health Insurance Plan (ASES). This amount should be amortized through retention of the increase in the Electronic LOTO participation received by the Municipality, in accordance with Law Number 29 of July 1, 1997.

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

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

DESCRIPTION	BALANCE JULY 1, 2000	ADDITIONS AND ADJUSTMENTS	DISPOSITIONS AND ADJUSTMENTS	BALANCE JUNE 30, 2001
Lands	\$ 2,025,877	\$ 324,255	\$ -	\$ 2,350,132
Buildings and Improvements ..	9,472,378	-	-	9,472,378
Machinery and Equipment	3,138,809	456,199	-	3,595,008
TOTAL	\$14,637,064	\$ 780,454	\$ -	\$15,417,518

NOTE 6 GENERAL LONG-TERM DEBTS

A. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

The principal long-term obligations of the Municipality are general obligations bonds and notes payable issued to finance the construction and improvements of public facilities. The Municipality's general obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 7). The special obligations long-term notes retirements are paid through retention made by the Municipal Revenue Collection Center from monthly advance of annual property tax and subsidy send to the Municipality.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 6 GENERAL LONG-TERM DEBTS (continuation)

B. GENERAL OBLIGATIONS BONDS AND NOTES PAYABLE

General obligations bonds and notes payable as of June 30, 2001, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$1,525,000, Series 1997, payable in semiannual installments ranging from \$20,000 to \$135,000, excluding interest, through July 1, 2021; interest at 8.00%	\$1,430,000
\$575,000, Series 1996, payable in semiannual installments ranging from \$15,000 to \$60,000, excluding interest, through July 1, 2015; interest at 8.00%.....	515,000
\$1,640,000, Series 1992, payable in semiannual installments ranging from \$65,000 to \$190,000, excluding interest, through July 1, 2006; interest at 6.363%	<u>935,000</u>
Total General Obligations – Bonds	<u>2,880,000</u>
Special Obligations Notes:	
\$221,269, Series 1988, payable in quarterly installments of \$2,766, excluding interest, through July 1, 2007; interest at 8.00%.....	66,381
\$300,000, Series 1987, payable in semiannual installments of \$15,000, excluding interest at 9.00%, through July 1, 2007	90,000
\$550,000, Series 2000, payable in annual installments ranging from \$90,000 to \$130,000, excluding interest through July 1, 2004; interest ranging to 7.29% to 8%.....	460,000
\$4,100,000, Series 1986, payable in semiannual installments ranging from \$205,000 to \$264,000, excluding interest, through July 1, 2016; interest at 8.50%.....	<u>1,254,000</u>
Total Special Obligations – Notes.....	<u>1,870,381</u>
Total General Obligations Bonds and Notes.....	<u>\$4,750,381</u>

The annual requirements to amortize the general and notes obligations outstanding as of June 30, 2001 are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT
2002	\$ 541,063	\$ 317,080	\$ 858,143
2003	566,063	281,497	847,560
2004	601,063	237,765	838,828
2005	631,063	191,643	822,706
After 2005	<u>2,411,129</u>	<u>1,069,553</u>	<u>3,480,682</u>
TOTAL	<u>\$ 4,750,381</u>	<u>\$ 2,097,538</u>	<u>\$ 6,847,919</u>

B. OTHER LONG-TERM DEBTS

Description	Balance July 1, 2000	New Issues	Retirements and Current MATURATES	Balance June 30, 2001
Property Tax Advance-MRCC	\$ 383,181	\$1,187,446	\$ 974,186	\$ 596,441
Property Tax Adv.-Treasury Dept.	301,343	-	32,880	268,463
Intergovernmental Advance.....	286,475	-	6,203	280,272
Income Tax Withheld.....	217,440	-	217,440	-
State Health Insurance	837,412	-	126,162	711,250
Compensated Absences	696,310	-	10,664	685,646
Solid Waste Disposal Debt	<u>542,750</u>	-	<u>73,528</u>	<u>469,222</u>
TOTAL	<u>\$3,264,911</u>	<u>\$1,187,446</u>	<u>\$1,441,063</u>	<u>\$3,011,294</u>

C. CHANGES IN GENERAL LONG-TERM DEBTS

The following is a summary of changes in long-term debts for the year ended June 30, 2001:

DESCRIPTION	BALANCE JULY 1, 2000	NEW ISSUES	RETIREMENTS AND CURRENT MATURATES	BALANCE JUNE 30, 2001
General.....	\$3,035,000	\$ -	\$ 155,000	\$2,880,000
Bonds and Notes	2,221,445	-	351,064	1,870,381
Others Debts	<u>3,264,911</u>	<u>1,187,446</u>	<u>1,441,063</u>	<u>3,011,294</u>
TOTAL.....	<u>\$8,521,356</u>	<u>\$1,187,446</u>	<u>\$1,947,127</u>	<u>\$7,761,675</u>

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 7 DEBT RETIREMENT

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

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

NOTE 8 PROPERTY TAXES

The Municipal Revenue Collection Center of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the **Municipality** and for the levy, administration and collection of the corresponding tax contribution.

The property tax contribution is levied each year over the appraised value of the property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957 and the personal property at the current value at the date of the assessment.

The tax rate per annum is 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico and 7.05% and 5.05%, respectively, belongs to the **Municipality**. From the portion belonging to the **Municipality**, 6.00% and 4.00%, respectively, represents the **Municipality's** basic tax rate that is appropriated for general purposes and therefore accounted for through the General Fund. The remaining portion belonging to the **Municipality** of 1.25% represents the ad-valorem property taxes withheld by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico and restricted for debt service, which is accounted for through the Debt Service Fund (See Note 7).

The **Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate. The Commonwealth of Puerto Rico grants complete real property tax exoneration on the first \$15,000 has assessed valuation on residential units occupied by their owners. However, the **Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500 on which a complete exemption is granted.

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

The **Municipality** records as revenue in the General Fund the exonerated portion of property tax contribution when received from quarterly advances from Municipal Revenue Collection Center. The non-exonerated portion of the advance is recorded as other financing sources in the General Fund and in the General Long-Term Debt Account Group as an increase in related debt. The revenue for the basic contribution over property not exonerated is recorded in the General Fund where the respective property tax notifications from Municipal Revenue Collection Center are received, which includes the amounts collected by such Center.

Due to the fact that collections of non-exonerated property taxes are applied to the advances of property tax send by the Municipal Revenue Collection Center, they are record as amortization of the advance in the General Long-Term Account Group and as expenditures in the General Fund and recognized as revenue in accordance with GAAP.

At June 30, 2001, the Debt Service Fund of the **Municipality** presents a receivable of \$23,778 according to measurement revenue recognition focus.

NOTE 9 VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the **Municipality** and which are not totally or partially exempt from this tax under the Industrial Incentives Laws of the Commonwealth of Puerto Rico. All taxpayers are required to file their declarations by April 23 of each year.

The tax rates are as follows:

- a. 1.50% for financial institutions
- b. 1.00% for savings and loan associations.
- c. Other Organizations:

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 9 VOLUME OF BUSINESS TAX (continuation)

- 0.30% below \$100,000
- 0.40% \$100,001 through \$200,000
- 0.50% Over \$200,001

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

NOTE 10 INTERGOVERNMENTAL REVENUES

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

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

The Municipality has a long-term debt of \$280,272 to the Municipal Revenue Collection Center, for intergovernmental advance from subsidy and others sources, for the fiscal year 1997-98 and 1998-99. This debt will not require the use of expendable available financial resources, then is included in the General Long-Term Debt Account Group at June 30, 2001.

NOTE 11 EMPLOYEE'S RETIREMENT PLAN

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The Municipality adopted the requirements of **GASB Number 25** for all the career employees that are covered under the Commonwealth of Puerto Rico Employee's Retirement System, a multiple-employer public employee retirement system, established by State Laws.

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

On September 24, 1999 amendments to the law were approved, which establish a savings program. All employees active in the system as of December 31, 1999 may elect to transfer from define contribution program to the new savings program. Employees in the savings program may now contribute an additional 10% of their monthly salary, and, if at time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits.

The total pension expenditures recorded in the category of administration for the Fiscal Year Ended June 30, 2001 was approximately **\$183,902**. All employees who at the time of employment are 55 years old or less are eligible to participate in the System. No benefit is payable if the participant receives a refund of his accumulated contributions.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Pension benefits for participants with 30 years of service are as follows:

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 11 EMPLOYEE'S RETIREMENT PLAN (continuation)

Years Of Service	Participant's Age	Pension Benefits
30 or more	55 or less	65% of the average of the three years of highest salary during the employee's service period.
30 or more	58 or more	75% of the average of the three years of highest salary during the employee's service period.
30 or more	65 or more	75% of the average of the three years of highest salary during the employee's service period (employees started working after April 1, 1990).

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

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

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

The amount of the total pension benefit obligation is based on a standardized measurement established by **GASB Number 27, Financial Reporting for Defined Benefit Pension Plans and Notes Disclosure for Defined Contributions Plans**. The standardized measurement is the actuarial present value of estimated defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee services performed to date.

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

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available.

Contributions in 2001 and prior years were made based on percentages established by the law. Such percentages have not been based on actuarial studies, as required by accounting principles generally accepted in the United States of America.

An actuarial compilation of the annual contribution applicable to the **Municipality** has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS are not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the year ended June 30, 2001.

NOTE 12 CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

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

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 12 CONTINGENCIES (continuation)

B. FEDERAL GRANTS

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

NOTE 13 BEGINNING FUND BALANCES RESTATEMENT

Beginning Fund Balances of Special Revenue Fund and General Fund have been restated by accounting adjustments for accounting errors detected during the fiscal year that affect the Fund Equity of this Governmental Funds, as follows:

	GENERAL FUND	SPECIAL REVENUE
Beginning Fund Balance at July 1, 2000	(\$1,380,864)	\$1,588,457
Elimination of Interfunds (Due to/Due From) Transaction	<u>(269,121)</u>	<u>269,121</u>
Beginning Fund Balance, as Restated, July 1, 2000	<u>(\$1,649,985)</u>	<u>\$1,857,578</u>

NOTE 14 GASB STATEMENTS NUMBERS 33, 34, 37 AND 38

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

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

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

B. Basic Financial Statements – should include:

1. Government-wide Statements – The government-wide statements should display information about the reporting government as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financial statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. Capital assets, including infrastructure assets, and depreciation charges are reported on these new financial statements:

- a. Statement of Net Assets
- b. Statement of Activities

2. Fund Financial Statements – Fund financial statements for the primary government’s governmental, proprietary, and fiduciary funds should be presented after the government-wide statements. These funds should be presented after the governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.

3. Notes to the Financial Statements – One set of notes for both financial statements.

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

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO THE GENERAL PURPOSES FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 14 GASB STATEMENTS NUMBERS 33, 34, 37 AND 38 (continuation)

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

Governments that elect early implementation of this Statement, should also implement GASB Statement Number 33, Accounting and Financial Reporting for Nonexchange Transactions, at the same time. Also, GASB 34 was amended by GASB Number 37 and 38 for topics that should be included in the MD&A and disclosures.

END OF NOTES

PART II

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Housing and Urban Development:			
Direct Programs (Cluster):			
Section 8 Rental Vouchers Program	14.855	RQ46V073	
Section 8 Rental Certificate Program.....	14.857	RQ46R068	<u>\$ 471,997</u>
Total Section 8 Program			
Indirect Programs:			
Pass-Through State – Office of the Commissioner of Municipal Affairs:			
State Block Grant Program (SBGP).....	14.228	99-FD-58 98-FD-58 97-FD-58 96-FD-58 95-FD-58 94-AF-FD-58	<u>992,604</u>
Total Department of Housing and Urban Development			<u>1,464,601</u>
U.S. Department of Justice:			
Public Safety Partnership and Community Policing Grants	16.710		101,060
Local Law Enforcement Block Grant	16.592		<u>11,950</u>
Total Department of Justice			<u>113,010</u>
U.S. Federal Emergency Management Agency (FEMA):			
Pass-Through Office of the Governor:			
Public Assistant Grant	83.544	FEMA1136DR-PR FEMA1247DR-PR	<u>244,705</u>
U. S. Department of Health and Human Services:			
Pass Through Administration of Families and Children:			
Child Care and Development Block Grant.....	93.575	CC-V96	<u>212,290</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS....			<u>\$2,034,606</u>

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

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of San Lorenzo, Puerto Rico (Municipality)** and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 FEDERAL CFDA NUMBER

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

NOTE 4 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the **Municipality's** Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Type as follows:

DESCRIPTION	SPECIAL REVENUE	CAPITAL PROJECT	TOTAL
Federal Programs Expenditures	\$1,852,343	\$ 182,263	\$2,034,606
State & Municipal Expenditures	<u>1,076,934</u>	<u>2,111,898</u>	<u>3,188,832</u>
TOTAL EXPENDITURES	<u>\$2,929,277</u>	<u>\$2,294,161</u>	<u>\$5,223,438</u>

NOTE 5 MAJOR PROGRAMS

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

END OF NOTES

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of San Lorenzo, Puerto Rico (Municipality)** and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

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- B. The financial transactions are recorded by the **Municipality** in accordance with the terms and conditions of the grants, which are consistent with generally accepted accounting principles.
- C. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 FEDERAL CFDA NUMBER

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NOTE 4 RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

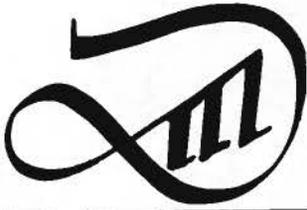
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Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

END OF NOTES



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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of San Lorenzo, Puerto Rico**

We have audited the financial statements of **Municipality of San Lorenzo, Puerto Rico (Municipality)** as of and for the year ended June 30, 2001, and have issued report thereon dated November 2, 2001, which was qualified because we not been able to audit the fixed assets of the General Fixed Assets Account Group. Except as discussed in the preceding sentence, we conducted our engagement to audit in accordance with 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 engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider being reportable conditions. Reportable conditions involve matters coming to our consideration relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial statements. Reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 01-II-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above being material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality** in a separate letter dated November 2, 2001.

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

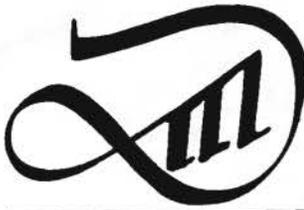
Page 2

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


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 2, 2001





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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of San Lorenzo, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of San Lorenzo, Puerto Rico (Municipality)** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality's** management. Our responsibility is to express an opinion on the **Municipality's** compliance based on our audit.

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

As described in items 01-III-02, 01-III-04, 01-III-07, 01-III-10, and 01-III-13 in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirements regarding Allowable Cost/Cost Principles, Davis-Bacon Act, Procurement Standards and Reporting that are applicable to its Public Assistance Grant, State Block Grant Program and Section 8 Rental Program. Compliance with such requirements is necessary, in our opinion, for **Municipality** to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, **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, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-01, 01-III-03, 01-III-05, 01-III-06, 01-III-08, 01-III-09, 01-III-11, 01-III-12 and 01-III-14 through 01-III-19.

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

Page 2

Internal Control Over Compliance

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

We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-III-01, 01-III-03, 01-III-04, 01-III-05, 01-III-06 and 01-III-11 through 01-III-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 items 01-III-02, 01-III-07, 01-III-08, 01-III-09 and 01-III-10, to be material weaknesses.

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


CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants

Caguas, Puerto Rico
November 2, 2001



PART III
FINDINGS AND QUESTIONED COSTS

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered being material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Reportable condition(s) identified that are not considered being material weaknesses? X Yes None Reported

Type of auditors' report issued on compliance for Major Programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? X Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	State Block Grant Program (SBGP)
14.855 – 14.857	Section 8 Rental Program (Cluster)
83.544	Public Assistant Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section II – Financial Statement Findings

FINDING	NUMBER 01-II-01
REQUIREMENT	REPORTABLE CONDITION OVER PROPERTY, PLANT AND EQUIPMENT
CONDITION	During our examination of Municipality's property record and reports we noted the following deficiencies: (1) Construction in Progress are not accounted for as part of Property, Plant and Equipment account balance; (2) there is no adequate internal control procedure to assure the proper valuation and timeliness of recognition of real estate inventory.
CRITERIA	Article 9.002 of State Act Number 81 of August 30, 1991 stated that Municipality should maintain updated property accounting records.
EFFECT	Municipality did not maintain an adequate control of the accountability regarding property transactions.
CAUSE	Evidence that system fails to provide a complete and accurate output consistent with the entity's control objectives because of the misapplication of controls.
RECOMMENDATION	Municipality should implement internal control procedures in order to comply with this requirement .
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-01
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of Municipality's internal control over disbursement process, that vouchers related to four (4) issued checks were not properly authorized and supporting documents related to seven (7) issued checks were not stamped as paid.
CRITERIA	Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 24 CFR, Section 85.20 (b) (3) (OMB Common Rule) requires grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets, to assure they will be used solely for authorized purposes.
EFFECT	Liabilities could be paid twice by the Municipality . The Municipality is not in compliance with CFR 24, Section 570.89 (d) (1) and Section 85.20 (b) (3).
CAUSE	There are no adequate internal control procedures implemented to assure this compliance.
RECOMMENDATION	Municipality should implement adequate procedures to ensure that all disbursement transactions were properly authorized and all supporting documents stamped as paid in order to assure compliance with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-02
FEDERAL PROGRAM	PUBLIC ASSISTANCE GRANT (CFDA NO. 83.544) U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY PASS-THROUGH STATE – OFFICE OF GOVERNOR AUTHORIZED REPRESENTATIVE (GAR)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST/COST PRINCIPLES
CONDITION	It was noted in our tests of Municipality's internal control over disbursements process, that four (4) Receiving Reports and six (6) Invoices were not available for our examination.
CRITERIA	OMB Circular A-87 has established that a cost allocable to a particular Federal award must be adequately documented to be allowable. Also Subpart C, 44 CFR 13.20 (b) (6) has established that transaction posted on accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contracts, sub-grant awards documents, and others.
CAUSE	Municipality did not maintain an adequate control over the record keeping of documents that justify the disbursements.
EFFECT	Municipality is not in compliance with Subpart C, 44 CFR 13.20 (b) (6), and Program Compliance Requirement.
RECOMMENDATION	We recommend the implementation of an adequate control over the record keeping of documents that justify the disbursements.
QUESTIONED COSTS	\$30,897.60
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-03
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	Federal Financial Assistance is sometimes requested and not used to cover immediate expenditures incurred.
CRITERIA	Code of Federal Regulations, Subpart I, 24 CFR Section 570.489 (c) (1) stated that units of general local governments shall use procedures to minimize the time elapsing between the transfer of funds by the state and disbursement for SBGP activities, according with Treasury Circular 1075.
CAUSE	Federal Program and Finance Departments did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
EFFECT	It could be understood that Federal Program and Finance Departments are requesting funds in excess of the immediate expenditures incurred.
RECOMMENDATION	We recommend management to revise their forecast procedures in order to comply with this requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-04
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	DAVIS-BACON ACT
CONDITION	Municipality did not develop a monitoring system to ensure that contractors paid prevailing wages payments according to Department of Labor.
CRITERIA	Davis-Bacon Act, as amended (40 USC 276a – 276a-7). Also, the Federal Program Manual, Phase II, Section 2, issued by the Office of Commissioner of Municipal Affairs State similar requirements.
EFFECT	Municipality is not in compliance with Davis-Bacon Act (40 USC 276a – 276a-7).
CAUSE	Municipality did not develop an adequate monitoring system to ensure contractors and subcontractors compliance with the act. The procedures established that the Municipality must interview the employees at the beginning, at a middle stage and at the end of the project.
RECOMMENDATION	We recommend management to develop a monitoring system that includes obtaining prevailing wage rates from the Department of Labor, the assignment of specific responsibility to one municipal employee to monitor contractors and subcontractors for compliance, obtaining contractor's payrolls and perform the interviews to contractor's and subcontractor's laborers accordingly to the established requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-05
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant Files Test we noted that thirteen (13) participant files did not have evidence of the HUD-approved release and consent forms submitted by the family as required by federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart F, Section 5.617 (b) stated that as a condition of admission to, or continued occupancy of, any assisted unit, the Municipality shall require the family head and other such family members as it designated, on 24 CFR, Subpart B, Section 5.230 (a), to execute a HUD-approved release and consent form authorizing any depository or private source of income, or any federal, state or local agency, to furnish or release to the Municipality and to HUD such information as the Municipality and HUD determines to be necessary. Also it is stated on 24 CFR, Subpart K, Section 982.516 (g).
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart F, Section 5.617(b); Subpart B, Section 5.230(a); and Subpart K, Section 982.516 (g).
CAUSE	The Municipality does not have consent forms that authorize the collection of income information from State Wages Information Collection Agencies (SWICA), and wages, net earnings from self-employment, payments of retirement income, and unearned income as referenced at 26 U.S.C. 6103. In addition, consent form may authorize the collection of other information from applicants and participants to determine eligibility or level of benefits.
RECOMMENDATION	We recommend management to require each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, to sign a release form.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-06
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant Files Test we noted that tenant's files did not contain third party verifications regarding family income and composition.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.516 (a)(2) stated that the Municipality must obtain and document in the tenant files third party verification of the following factors, or must document in the tenant file why third party verification was not available: (i) reported family annual income, (ii) the value of assets, (iii) expenses related to deductions from annual income and (iv) other factors that affect the determination of adjusted income.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart K, Section 982.516 (a)(2).
CAUSE	The Municipality does not maintain tenants files as required by federal regulations in order to verify the information provided by the applicant or participants regarding the family income and the family composition.
RECOMMENDATION	We recommend management to implement the necessary procedures in order to comply with program regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-07
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	ELIGIBILITY TEST
CONDITION	During our Participant Files Test we noted that four (4) tenant's files did not contain evidence of the annual or interim reexamination of income and family composition as required by the federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.516 (a) stated that the Municipality must conduct a reexamination of family income and composition at least annually. Also Section 982.516 (d) (2) stated that at the effective date of a regular or interim reexamination the Municipality must make the appropriate adjustments in the housing assistance payments.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart K, Section 982.516 (a).
CAUSE	The Municipality did not establish procedures to ensure the reexamination of family income and composition at least annually of all the tenants served by the program in order to avoid paying ineligible amounts corresponding to housing assistance payments and/or utility reimbursements.
RECOMMENDATION	We recommend management to establish the necessary procedures in order to comply with program regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-08
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	EQUIPMENT AND REAL PROPERTY MANAGEMENT
CONDITION	It was noted in our tests of equipment and real property management that the Municipality did not maintain appropriate real property records as required by federal regulation.
CRITERIA	Code of Federal Regulations, Subpart J, CFR 24, Section 570.506 (a) stated that the Municipality shall establish and maintain at minimum, records providing a full description of each activity assisted (or being assisted) with CDBG funds, including its location (if the activity has a geographical focus), the amount of CDBG funds budgeted, obligated and expended for the activity.
EFFECT	The Municipality is not in compliance with CFR 24, Section 570.506 (a).
CAUSE	The Municipality did not maintain the appropriate information on the real property records to assure that it is in accordance with federal regulation.
RECOMMENDATION	Municipality should revise its real property records and complete it according to federal regulation
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-09
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	During our Participants Files Test we noted that one (1) tenant's file does not contain all the contracts as required by the federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.162 (a) (2) and (3) stated that the Municipality must use program contracts and other forms required by HUD headquarters, including: the HAP contract between the Municipality and the owner; and the lease language required by HUD (in the lease between the owner and the tenant).
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart D, Section 982.162 (a)(2) and (3).
CAUSE	The Municipality did not establish procedures to ensure that all the required contracts were legalized before the housing assistance payments and/or the utility reimbursements were disbursed.
RECOMMENDATION	We recommend management to implement procedures in order to ensure compliance with program regulations.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-10
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	During our Grant Disbursements Test we noted that the Municipality obligated funds for a change order that was fifty-seven percent (57%) in excess of the original construction cost without performing a formal bid.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (b) (1) stated that the Municipality will use their own procurement procedures which reflect applicable State and local laws and regulations; Municipalities are regulated by Law 81 "Autonomous Municipalities" (Law). The Law, Chapter X, Article 10.002, stated that if there is a change order for a construction contract, the change has to be less than twenty-five percent (25%) of the original cost to be excluded from a formal bid.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR Section 85.36 (b) (1) and Law 81 Chapter X, Article 10.002.
CAUSE	Municipality did not comply with Federal and State Laws regarding procurement procedures.
RECOMMENDATION	We recommend management to follow procurement procedures established by Federal and State Laws.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-11
FEDERAL PROGRAM	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	PROCUREMENT STANDARDS
CONDITION	The construction contracts model over \$10,000 used by the Municipality did not contain clauses detailed for compliance with the provisions for suspension and debarment, Davis-Bacon, contract work hours and safety standards, Clear Air and Clear Water Act Energy Policy and Conservation Act as required by the program regulation.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) stated that subgrantee's contract must contain provision in paragraph (i) of this Section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
EFFECT	Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) of OMB Common Rules.
CAUSE	Municipality did not maintain appropriate procurement standard procedures, in order to assure that contractors comply with requirements.
RECOMMENDATION	We recommend management to update contract model according with the federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-12
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	During our Participant Files Test we noted that eight (8) tenants files contained Family Reports (HUD-50058) that were not updated with participant's current information instead, they were prepared with information from the previous period. Also we noticed that the corresponding special report has not been updated according to the modifications made by HUD.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (a), stated that the Municipality must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. The Municipality is required to submit the Family Report (HUD-50058) electronically to HUD each time the Municipality completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The Municipality must also submit this special report when a family ends participation in the program or moves out of the Municipality jurisdiction under portability.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (a).
CAUSE	The Municipality did not implement procedures to warrant the accuracy of the Family Report form HUD 50058.
RECOMMENDATION	We recommend management to implement adequate procedures over the submission of financial reports.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-13
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	REPORTING
CONDITION	During our reporting test it was noted that the Municipality did not submit the Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0149) as required by the federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart C, Section 85.41 (b) (4) stated that when financial reports are required on an annual basis, the Municipality must submit the corresponding report ninety (90) days after the expiration or termination of grant support.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart C, Section 85.41 (b) (4).
CAUSE	The Municipality did not establish procedures to submit the required financial report annually.
RECOMMENDATION	We recommend management to implement adequate procedures over the submission of financial reports.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-14
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our utility allowance schedule test we noticed that the schedule has not been reviewed since January 1, 1995 as required by federal regulation.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart K, Section 982.517 (4) (c) stated that the Municipality must review its schedule of utility allowance each year, and must adjust its allowance for a utility category if there has been a change of 10 percent (10%) or more for in the utility rate since the last time the utility allowance schedule was revised. Also, the Municipality must maintain information supporting its annual review of utility allowance and any revisions made in its utility allowance schedule.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart K, Section 982.517 (4)(c).
CAUSE	The Municipality did not establish procedures to ensure the accuracy of its utility allowance schedule.
RECOMMENDATION	We recommend management to implement internal control procedures for the review of the utility allowance schedule each year and submit it to the federal agency for approval.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-15
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our verification of units with failed Housing Quality Standards inspections we noticed that the Municipality did not establish the correction period in the document submitted to the person responsible for the repairs. Also, we noticed that in twelve (12) participant's files there was no evidence of a unit inspection report or other verification documenting that any PHA required repairs were completed.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart I, Section 982.404 stated that the Municipality must not make any housing assistance payments for a dwelling unit that fails to meet the Housing Quality Standards, unless the responsible person (owner and/or participant) corrects the deficiency within the period specified by the Municipality and the Municipality verifies the correction.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart I, Section 982.404.
CAUSE	The Municipality did not specify the time frames for the correction of the deficiencies, also the entity did not verify the correction of the Housing Quality Standards deficiencies; therefore, the Municipality fails to take prompt and vigorous action to enforce the owner and/or participants obligations.
RECOMMENDATION	We recommend management to implement internal control procedures to establish a correction time period to assure that the units Housing Quality Standards deficiencies were corrected during the specified period established by federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-16
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test we noted that twenty (20) participants files did not have a unit inspection report.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart D, Section 982.158 (a) stated that the Municipality must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements. Also 24 CFR, Subpart D, Section 982.158 (d) stated that the Municipality must prepare unit inspection reports.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart D, Section 982.158 (a) and Section 982.158 (d).
CAUSE	The Municipality did not prepare an inspection report in order to documented the required annual Housing Quality Standards Inspections and quality control re-inspections.
RECOMMENDATION	We recommend management to document the Housing Quality Standards inspections as established under federal regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-17
FEDERAL PROGRAM	SECTION 8 RENTAL PROGRAMS (CLUSTER) (CFDA NO. 14.855 AND 14.857) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our waiting list test we noted that the list did not contain the required information to assure that the selection of new tenants admitted to the program where in accordance with the Public Housing Agency tenant selection policies.
CRITERIA	Code of Federal Regulations, 24 CFR, Subpart E, Section 982.204 (b) stated that the waiting list that the Municipality maintains must contain the following information for each applicant listed: applicant's name, family unit size, date and time of application, qualification for any ranking preference or local preference, and racial or ethnic designation of the head of household.
EFFECT	The Municipality is not in compliance with 24 CFR, Subpart E, Section 982.204 (b).
CAUSE	The Municipality does not maintain the complete information on the waiting list and does not warrant the correct selection of applicants.
RECOMMENDATION	We recommend management to revise the waiting list and complete it according to regulation.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-18
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test of Housing Rehabilitation we noted that twenty-two (22) participants files did not have the intermediate and the final unit inspection.
CRITERIA	The Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to perform an intermediate and a final inspection to determine if the unit is being rehabilitated and that the rehabilitation has been completed, respectively.
EFFECT	The Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
CAUSE	The Municipality did not perform an intermediate and a final unit inspection in order to document if the participant unit is being rehabilitated and that the rehabilitation have been completed, respectively.
RECOMMENDATION	We recommend management to implement adequate procedures in order to comply with this pass through entity requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

FINDING	01-III-19
FEDERAL PROGRAMS	STATE BLOCK GRANT PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS-THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS
REQUIREMENT	COMPLIANCE
NONCOMPLIANCE	SPECIAL TESTS AND PROVISIONS
CONDITION	During our Participant Files Test of Housing Rehabilitation we noted that six (6) participant files did not have the initial (preliminary) unit inspection.
CRITERIA	The Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs, the pass through entity, stated that the Municipality has to perform an initial unit inspection to determine if the unit is eligible to be rehabilitated under the program's criteria.
EFFECT	The Municipality is not in compliance with the Operational Guide of Housing Rehabilitation provided by the Office of Commissioner of Municipal Affairs.
CAUSE	The Municipality did not perform an initial unit inspection in order to document if the participant unit is eligible to be rehabilitate under the Housing Rehabilitation criteria.
RECOMMENDATION	We recommend management to implement adequate procedures in order to comply with this pass-through entity requirement.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	Pending the Corrective Action Plan.

END OF SCHEDULE

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(1) Audit Findings that have been Fully Corrected:					
2000	00-III-03	Allowed Cost-Cost Principles	14.228	\$39,736.26	System and procedures corrected.
	00-III-06	Allowed Cost-Cost Principles	14.228	NONE	System and procedures corrected.
	00-III-08	Davis-Bacon Act	83.544	NONE	System and procedures corrected.
	00-III-11	Procurement and Suspension and Debarment	83.544	NONE	System and procedures corrected.
1999	99-III-02	Davis-Bacon Act	83.544	NONE	System and procedures corrected.
	99-III-03	Procurement and Suspension and Debarment	14.228-83.544	NONE	System and procedures corrected.
(2) Audit Findings not Corrected or Partially Corrected:					
2000	00-III-01	Activities Allowed or Unallowed-Allowed Cost	83.544	NONE	Municipality will implement internal control procedures in order to assure compliance with this requirement.
	00-III-02	Allowed Cost-Cost Principle	14.228-83.544	NONE	Municipality will stamp paid on all disbursement in order to assure compliance with this requirement.
	00-III-04	Allowed Cost- Cost Principle	14.855-14.857	NONE	Municipality will implement internal control procedures in order to comply with OMB Circular A-87.
	00-III-05	Allowed Cost-Cost Principle	83.544	NONE	Municipality will implement adequate control over the record-keeping of documents that justify the disbursements.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(2) Audit Findings not Corrected or Partially Corrected: (continuation)					
2000	00-III-07	Cash Management	14.228	NONE	Municipality maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
	00-III-08	Davis-Bacon Act	14.228	NONE	Municipality will develop an adequate monitoring system to ensure contractors compliance with the Act.
	00-III-09	Eligibility Test	14.855	NONE	Municipality will review participant file and compliment it according to regulation.
	00-III-10	Procurement Standards	83.544	NONE	Municipality will update contract model according with the federal requirement.
	00-III-11	Procurement Standards	14.228	NONE	Municipality will follow correct management procedures and procurement as established by Federal and State Laws.
	00-III-12	Reporting	14.855-14.857	NONE	Municipality maintain adequate and accurate accounting records.
	00-III-13	Special Test and Provisions	14.855-14.857	NONE	Municipality will review the waiting list and compliment it according to regulation.
	00-III-14	Special Test and Provisions	14.855-14.857	NONE	Municipality will review the participant files and compliment it according to regulation.
1999	99-III-01	Cash Management	14.228	NONE	See Finding Number 00-III-07.
	99-III-02	Davis Bacon Act	14.288	NONE	See Finding Number 00-III-08.

continue

MUNICIPALITY OF SAN LORENZO, PUERTO RICO

SCHEDULE OF PRIOR AUDIT'S FINDINGS

FOR THE YEAR ENDED JUNE 30, 2001

FISCAL YEAR	FINDING NUMBER	FINDING	CFDA NUMBER	QUESTIONED COST	COMMENTS
(2) Audit Findings not Corrected or Partially Corrected: (continuation)					
	99-III-04	Procurement Standards	14.228	NONE	See Finding Number 00-III-11.
	99-III-05	Reporting	14.855 – 14.857	NONE	See Finding Number 00-III-12.

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

NONE

(4) Audit findings is no longer valid:

NONE

END OF SCHEDULE