

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

MUNICIPIO DE SANTA ISABEL
AUDITORIA 2000-01
30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF SANTA ISABEL

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL

YEAR ENDED JUNE 30, 2001

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Assembly
Municipality of Santa Isabel
Santa Isabel, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Santa Isabel**, 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 paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 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 of Santa Isabel** accounting system and subsidiary records of property and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

We did not obtain responses from some legal counsels regarding your opinion about existing or potential litigation, claims, or assessments against the **Municipality of Santa Isabel**. Therefore, we do not express an opinion on such matters.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, and obtained the legal responses about existing or potential litigation, claims or assessment, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Santa Isabel** as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (Continued)

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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 15, 2002

Stamp No. 1785254 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS							
Cash		\$687,706		\$45,998			\$733,704
Cash with fiscal agent	298,861	40,565	\$614,834	148,450			1,102,710
Intergovernmental receivables	130,285						130,285
Federal grants receivable		122,768					122,768
Due from other funds		195,947		767,680			963,627
Property and equipment					\$2,960,009		2,960,009
Amount available in Debt Service Fund						\$614,834	614,834
Amount to be provided for retirement of general long-term debt						9,888,631	9,888,631
Total assets and other debits	\$429,146	\$1,046,986	\$614,834	\$962,128	\$2,960,009	\$10,503,465	\$16,516,568
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$1,873,563	\$125,925					\$1,999,488
Bank overdraft	55,287						\$55,287
Due to other funds	914,027			49,600			963,627
Due to other governmental entities	661,562					\$2,288,905	2,950,467
Deferred municipal license tax revenues	407,548						407,548
Deferred federal grant revenues		749,612					749,612
General obligation bonds						4,296,031	4,296,031
Notes payable						484,000	484,000
Claims and judgments						2,555,000	2,555,000
Accrued compensated absences						879,529	879,529
Total liabilities	3,911,987	875,537		49,600		10,503,465	15,340,589
Fund equity:							
Investment in general fixed assets					\$2,960,009		2,960,009
Fund balances:							
Reserved for encumbrances	322,317						322,317
Reserved for debt service			614,834				614,834
Unreserved:							
Designated for specific fund purposes		171,449		912,528			1,083,977
Undesignated (deficit)	(3,805,158)						(3,805,158)
Total fund equity (deficit)	(3,482,841)	171,449	614,834	912,528	2,960,009		1,175,979
Total liabilities and fund equity	\$429,146	\$1,046,986	\$614,834	\$962,128	\$2,960,009	\$10,503,465	\$16,516,568

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30,2001**

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	
REVENUES				
Property taxes	\$1,291,102		\$291,223	\$1,582,325
Municipal license taxes	574,691			574,691
Licenses and permits	410,003			410,003
Intergovernmental	2,896,949	\$315,301		3,478,740
Rent of property	12,690			12,690
Fines and penalties	786			786
Interest	48,447			48,447
Federal grants		2,139,873		2,139,873
Miscellaneous	38,199			38,199
Total revenues	<u>5,272,867</u>	<u>2,455,174</u>	<u>291,223</u>	<u>8,285,754</u>
EXPENDITURES				
Current:				
Mayor and Municipal Assembly	1,266,410			1,266,410
General government	1,350,642	133,475		1,484,117
Public safety	166,995	280,356		447,351
Public works	3,292,355	138,337		3,430,692
Public health and sanitation	156,320			156,320
Welfare	283,598	1,292,056		1,575,654
Recreation	371,559			371,559
Principal retirement	115,000		199,969	314,969
Interest	81,823		157,144	238,967
Capital outlays	28,133	577,136		978,017
Total expenditures	<u>7,112,835</u>	<u>2,421,360</u>	<u>357,113</u>	<u>10,264,056</u>
Excess (deficiency) of revenues over (under) expenditures	(1,839,968)	33,814	(65,890)	(1,978,302)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes issuance	1,335,000			1,335,000
Total other financing sources (uses)	<u>1,335,000</u>			<u>1,335,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)	(504,968)	33,814	(65,890)	(643,302)
Fund balances (deficit), beginning, as restated	<u>(2,977,873)</u>	<u>137,635</u>	<u>680,724</u>	<u>(1,140,728)</u>
Fund balances (deficit), ending	<u>(\$3,482,841)</u>	<u>\$171,449</u>	<u>\$614,834</u>	<u>(\$1,784,030)</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001**

	GENERAL FUND			DEBT SERVICE FUND		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES						
Property taxes	\$1,917,380	\$1,291,102	(\$626,278)	\$371,883	\$291,223	(\$80,660)
Municipal license taxes	650,000	574,691	(75,309)			
Licenses and permits	529,510	410,003	(119,507)			
Intergovernmental	2,720,578	2,766,664	46,086			
Rent of property	5,720	12,690	6,970			
Fines and penalties	2,000	786	(1,214)			
Interest	24,000	48,447	24,447			
Miscellaneous	1,506,414	38,199	(1,468,215)			
Total revenues	<u>7,355,602</u>	<u>5,142,582</u>	<u>(2,213,020)</u>	<u>371,883</u>	<u>291,223</u>	<u>(80,660)</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,343,691	1,299,660	44,031			
General government	1,826,537	1,515,912	310,625			
Public safety	195,025	180,692	14,333			
Public works	2,748,686	3,385,100	(636,414)			
Public health and sanitation	42,397	156,320	(113,923)			
Welfare	295,126	284,225	10,901			
Recreation	425,391	388,287	37,104			
Capital outlays		28,133	(28,133)			
Debt service:						
Principal retirement	396,926	115,000	281,926	201,000	199,969	1,031
Interest	81,823	81,823		170,883	157,144	13,739
Total expenditures and encumbrances	<u>7,355,602</u>	<u>7,435,152</u>	<u>(79,550)</u>	<u>371,883</u>	<u>357,113</u>	<u>14,770</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances		(2,292,570)	(2,292,570)		(65,890)	(65,890)
OTHER FINANCING SOURCES (USES):						
Operating transfers in		1,335,000	1,335,000			
Total other financing sources (uses)		<u>1,335,000</u>	<u>1,335,000</u>			
Excess (deficiency) of revenues and other financing sources over (under) expenditures, encumbrances and other financing (uses)		(957,570)	(957,570)			
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Current year encumbrances		322,317				
GAAP adjustments to revenues		130,285				
Fund balances (deficit), beginning, as restated		<u>(2,977,873)</u>		<u>680,724</u>		
Fund balances (deficit), ending		<u><u>(\$3,482,841)</u></u>		<u><u>\$614,834</u></u>		

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

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

A. Financial reporting entity:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

B. Basis of presentation:

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

Governmental fund types:

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

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

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

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

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

Account groups:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

C. Basis of accounting:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

D. Reservations of fund balance:

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

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

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

E. Budgetary data:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

E. Budgetary data (continued):

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

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

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

F. Inventories:

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

G. Property and equipment:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

H. Cash:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund.

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

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

J. Compensated absences:

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

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

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

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

L. Total columns (memorandum only):

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

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

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

N. Claims and judgments:

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

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

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

Puerto Rico Aqueduct and Sewer Authority	\$ 311,748
Treasury Department (Income Taxes)	92,141
General Services Administration	4,153
Puerto Rico Electric Power Authority	50,984
Department of Labor	79,590
Retirement System Administration	113,169
Commonwealth of Puerto Rico – Employees Association	9,777
	<hr/>
Total	\$ 661,562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

Treasury Department (Property Taxes Advances)	\$ 319,006
Municipal Revenue Collection Center	1,229,060
Department of Labor	<u>740,839</u>
Total	<u>\$ 2,288,905</u>

3. PROPERTY TAXES:

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the advances were more than actual collections by \$267,593 according to CRIM preliminary liquidation. Such amount, added to \$1,027,713 property tax advance debt balance from prior years, was included as a long-term debt in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2001.

4. MUNICIPAL LICENSE TAXES:

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

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.50%
Other organizations	0.40% to 0.50%

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

5. INTERGOVERNMENTAL:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

5. INTERGOVERNMENTAL (CONTINUED):

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

6. DEBT SERVICE FUND:

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

7. GENERAL FIXED ASSETS:

A summary of changes in the General Fixed Assets Account Group is as follows:

Description	Balance June 30, 2001
Land	\$ 491
Buildings and Improvements	600,000
Equipment	2,359,518
Total	\$ 2,960,009

8. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	\$ 3,770,000
Debt issued	1,335,000
Principal retirements	(210,969)
Adjustments and/or Reclassifications	(598,000)
Balance at June 30, 2001	\$4,296,031

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

General obligation bonds at June 30, 2001 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2001
1980 Series	1-1-2004	\$182,500	5.00%	\$30,031
1983 Series	1-1-2029	390,000	5.00%	180,000
1986 Series	1/1-2011	324,000	5.00%	182,000
1991 Series	1/1-2016	361,000	5.00%	277,000
1993 Series	1-1-2018	33,000	4.50%	26,000
1993 Series	1-1-2018	215,000	4.50%	176,000
1996 Series	7-1-2020	630,000	4.70% - 6.63%	590,000
1997 Series	7-1-2022	205,000	4.86%-6.56%	190,000
1998 Series	7-1-2008	1,440,000	5.88% - 7.81%	1,085,000
1999 Series	7-1-2011	235,000	5.88% - 7.81%	225,000
2000 Series	7-1-2010	580,000	6.13% - 8.00%	580,000
2000 Series	7-1-2025	755,000	7.5%	755,000
Total general obligation bonds				<u>\$ 4,296,031</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 259,031
2003	287,000
04	304,000
2005	318,000
2006	341,000
Thereafter	2,787,000
Total	<u>\$ 4,296,031</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

Balance at July 1, 2000	-
Debt Issued	-
Payments during the current year	(\$ 104,000)
Adjustments\Reclassifications	<u>588,000</u>
Balance at June 30, 2001	<u>\$ 484,000</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1998 Series	1-1-04	229,000	4.50%	\$ 144,000
1999 Series	7-1-04	410,000	5.88% - 7.50%	<u>340,000</u>
Total notes payable				<u>\$ 484,000</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

Year ended June 30	Total
2002	\$ 121,000
2003	128,000
2004	140,000
2005	<u>95,000</u>
Total	<u>\$ 484,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN:

Defined Benefit Pension Plan

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED)

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

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

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

Defined Contribution Plan

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 221,194. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

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

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

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

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$2,555,000 in the general long-term debt account group for anticipated settlement related mainly to the dismissed of former municipal employees from their jobs due to an alleged case of political discrimination . The amount presented in the general long-term debt account group represents the amount of estimated as probable liability, which will require future available financial resources for its payment. The administration believes that the ultimate liability in excess of amounts provided would not be significant.

14. BEGINNING FUND BALANCES RESTATEMENT:

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

Description	General	Special Revenue Federal	Special Revenue Local	Debt Service	Capital Projects
Beginning Fund Balances (Deficit) at July 1, 2000	\$(2,611,443)	\$ 147,514	\$ (19,165)	\$ 322,466	\$ (1,544)
Reclassification of funds from Special Revenue-Local to Special Revenue-Federal		(19,165)	19,165		
Reclassification of Bond and Notes obligations to General Long Term Debt Account Group				358,258	
To restate Special-Revenue Federal Fund Balance and record Deferred Revenue as per our analysis		(147,514)			
To record Fund Balance of Special- Revenue Local as per funds reclassifications from General and Capital Projects Funds		156,800			

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

14. BEGINNING FUND BALANCES RESTATEMENT (CONTINUED):

Description	General	Special Revenue Federal	Special Revenue Local	Debt Service	Capital Projects
To eliminate account payables not supported					1,544
Reclassification of funds from Special Revenue to Capital Project Fund					61,756
To recognize due from General Fund as per our analysis					690,434
Reclassification of Cash with Fiscal Agent from General Fund to Capital Project Fund as per our analysis					266,596
To recognize due to other funds as per our analysis	(802,333)				
To recognize account payables related to and overdraft in books as per our analysis	(16,236)				
Reclassification of Cash with Fiscal Agent to Capital Project and Special Revenue Funds as per our analysis	(271,344)				
To eliminate Account Receivable from the Department of Health as per our analysis	(533,342)				
To reclassify debts from General Fund to General Long Term Debt Account Group as per our analysis	269,077				
To eliminate incorrect account payables as per our analysis	690,748				

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

14. BEGINNING FUND BALANCES RESTATEMENT (CONTINUED):

Description	General	Special Revenue Federal	Special Revenue Local	Debt Service	Capital Projects
To reclassify Department of Labor Debt to the General Long Term Debt Account Group in accordance with a payment plan	297,002				
Beginning Fund Balances at July 1, 2000, as restated	(\$2,977,873)	\$137,635	-	\$680,724	\$1,018,786

15. SIGNIFICANT SUBSEQUENT EVENTS:

In May, 2001 the Municipal Assembly approved the issuance of a note obligation authorized by "USDA-Rural Development" for the amount of \$300,000. The amortization period of the note can't be determined until the total disbursement of funds from USDA- Rural Development to the Municipality of Santa Isabel

In September, 2001 the Municipality of Santa Isabel issued an special obligation bond in the amount of \$405,000. The interest rate of this debt is 12% annually. The bond will be repaid with operational funds. Repayment of the bond is scheduled from 2002 through 2026.

In April, 2001 the Municipality of Santa Isabel initiated a process to acquire the " Diagnostic and Treatment Center". During October, 2001 the Municipal Assembly authorized to the Mayor to settle a claim against the Health Department and "HAS Enterprise" conforming to the agreement the Health Department will reduce the sale price of the Diagnostic Center from \$1,000,000 to \$600,000 if the Municipality withdraws a claim amounting to \$477,065.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Urban Development Action Grant	14.221		\$ 6,623
Direct Program:			
Section 8 Rental Voucher Program	14.855		231,882
Pass-through the Commonwealth of Puerto Rico Office of the Commissioners of Municipal Affairs:			
Community Development Block Grant – State Program	14.228	98-FD-34 99-FD-34 00-FD-34	404,715
Total U.S. Department of Housing and Urban Development			643,220
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Public Safety Partnerships and Community Policing Grants	16.710		221,066
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Local Law Enforcement Block Grants Program	16.592		55,000
Total U.S. Department of Justice			276,066

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico – Highway and Transportation Authority:			
Federal Transit – Capital Investment Grant	20.500	Not Available	\$ 167,636
Total U.S. Department of Transportation			<u>167,636</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Pass-through the Commonwealth of Puerto Rico Civil Defense:			
Emergency Management - State and Local Assistance	83.534	Not available	4,290
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544	1136-DRPR 1247-DRPR	<u>138,337</u>
Total U.S. Federal Emergency Management Agency			<u>142,627</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Program:			
Early Head Start Program	93.600		654,735

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ADFAN):			
Community Services Block Grant	93.569	Not Available	\$ 16,627
Child Care and Development Block Grant	93.575	Not Available	<u>238,962</u>
Total U.S. Department of Health and Human Services			<u>910,324</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,139,873</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

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

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

<u>Description</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,139,873
Non federal programs Expenditures	<u>281,487</u>
Total expenditures in the general purpose financial statements	<u>\$ 2,421,360</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor
and the Municipal Assembly
Municipality of Santa Isabel
Santa Isabel, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Santa Isabel** as of and for the year ended June 30, 2001, and have issued our report thereon dated March 15, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group, and we were unable to obtain responses from some legal counsels regarding your opinion about existing or potential litigation, claims, or assessments. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Santa Isabel's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Santa Isabel's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-05**.

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

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

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 15, 2002

Stamp No.1785255 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

**To the Honorable Mayor
and the Municipal Assembly
Municipality of Santa Isabel
Santa Isabel, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Santa Isabel** 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 of Santa Isabel's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Santa Isabel's** management. Our responsibility is to express an opinion on the **Municipality of Santa Isabel's** compliance based on our audit.

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

As described in items **01-11** and **01-12** in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the **Municipality of Santa Isabel** with Early Head Start Program regarding Matching and Earmarking-Administrative Cost Limits, nor were we able to satisfy ourselves as to the **Municipality of Santa Isabel's** compliance with those requirements by other auditing procedures.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Santa Isabel's** compliance with the requirements of Early Head Start Program regarding Matching and Earmarking-Administrative Cost Limits, the **Municipality of Santa Isabel** 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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-06** through **01-09**, **01-13** through **01-16**.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Santa Isabel'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 **01-06** through **01-16**.



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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **01-06, 01-08, 01-09, 01-11 through 01-13, and 01-15** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Santa Isabel** in a separate letter dated March 15, 2002.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 15, 2002

Stamp No.1785256 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 identified? Yes X No

Reportable conditions identified not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes X No

Reportable conditions identified not considered to be material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance for major programs: **Unqualified, except Qualified for Early Head Start Program (CFDA No. 93.600)**

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grant – State’s Program
93.600	Early Head Start Program

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

Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-01
Requirement	Fixed\ Capital Assets and Expenditures – Subsidiary Ledger
Statement of Condition	During our examination of the Municipality's property records and reports we noted the following deficiencies: (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger and (c) Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger.
Criteria	The federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets. Also, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedures implemented to assure the completeness of the property records and reports.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.
Recommendation	We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference 01-02

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-03
Requirement	Cash Receipts
Statement of Condition	The Municipality did not issue collection receipts for electronic fund transfers from U.S. Treasury Department related to Section 8 Rental Program. Also, for Early Head Start, a collection receipt was issued on March 21, 2001 to record electronic fund transfers received from U.S. Treasury Department from May 5, 2000 to March 15, 2001. Both Programs maintain a full set of accounting records apart from the Municipality's records.
Criteria	Article 6.005 (f) of State Act Number 81 of August 30, 1991 establishes that the Finance Director should maintain effective control and accountability over cash, real and personal property, and other assets.
Cause of Condition	The Municipality internal control did not provide procedures to ensure that electronic fund transfers be recorded when received.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend that the Municipality should implement internal control procedures in order to assure that all electronic fund transfers been recorded in the Municipality's accounting records when received.
Questioned Costs	None
Management Response	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-04
Requirement	Expenditures For Goods and Services and Accounts Payable - Purchasing
Statement of Condition	<p>During our examination of the Municipality's procedures related to the purchasing and receiving process we examined sixty (60) disbursement vouchers and we noted the following:</p> <ul style="list-style-type: none">a. In two (2) disbursement vouchers no evidence was found about receiving of goods purchased.b. In one (1) disbursement vouchers three (3) quotations were obtained but the decision process about the supplier selection was not documented.c. In one (1) case, approximately nine to ten months elapsed since the quotations were obtained and purchase order issuance; three (3) quotations included as part of disbursement supporting documents were dated March 9, 1999, March 22, 1999 and February 25, 1999, but purchase order was dated December 20, 1999.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.</p>
Cause of Condition	<p>The Municipality did not establish effective internal control to assure that all transactions include all the required documentation as required by law.</p>
Effect of Condition	<p>The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-04 (Continued)**

Recommendation We recommend that the Municipality should improve its internal control procedures in order to assure that a disbursement voucher contains all supporting documents before the payment is made. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase of goods or services that do not exceed \$ 10,000 and construction contracts that do not exceed \$ 40,000 or realize formal bids for purchases that exceed that limits.

Questioned Costs None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-05
Requirement	Payroll and Related Liabilities – Payroll Preparation and Timekeeping
Statement of Condition	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the deficiencies noted:</p> <ul style="list-style-type: none">a. In three (3) employees files the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 15, 2001.b. In three (3) employees files no evidence was found about the Notifying of Nomination Form applicable to the salary paid to such employees for the payroll period ended June 15, 2001.c. In two (2) cases the time assistance card for the month of June, 2001 did not agree with the compensated absences card.d. In one (1) case the time assistance card for the payroll period ended June 15, 2000 was not signed by the employee.e. In eleven (11) cases we noted that the compensated absences cards were not actualized at the end of the contract period for the State Department of Labor Grant (Law 52).f. In four (4) cases the employee compensated absences card were not available for examination.g. In two (2) cases the employee time assistance records for the payroll period ended June 15, 2001 were not available for examination.
Criteria	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-05 (Continued)
Questioned Costs	None
Cause of Condition	There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.
Effect of Condition	The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.
Recommendation	We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-06
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Activities Allowed or Unallowed
Statement of Condition	<p>During our audit of thirty (30) housing rehabilitation participant files, we noted the following situations:</p> <ul style="list-style-type: none">a. In one (1) case the amount contributed by the Municipality for the rehabilitation of the participant housing unit was in excess of maximum amount established in the program year 2000 approved proposal.b. In one (1) case the amount contributed by the Municipality for the rehabilitation of the participant housing unit was in excess of maximum amount established in the program year 1999 approved proposal.c. In one (1) case the Municipality approved a housing rehabilitation assistance two times during the waiting period (eight months) established in the program years 1999 and 2000.d. In four (4) cases we found that the assistance was approved for the construction of a hosing unit instead of a housing rehabilitation. Both program years 1999 and 2000, approved proposals that limited the use of funds to rehabilitation of existing residential units.
Criteria	According to Grant Agreements, approved proposal are integral part of the Grant Agreement. The program years 1999 and 2000 approved proposal has limited the use of funds to be provided as housing rehabilitation assistance, and others.
Cause of Condition	The Municipality internal control system failed to detect activities unallowed.
Effect of Condition	The Municipality is not in compliance with the Grant Agreements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-06 (Continued)
Recommendation	We recommend to the Municipality to assure that the assistance provided to participants are in compliance the requirements established in the Grant Agreement and CDBG – State’s Program Annual Proposal.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-07
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Cash Management
Statement of Condition	During our the Cash Management Test we found the following exceptions: a. We could not trace the funds received from the pass through grantor with the disbursements issued. b. The Municipality requested funds that were not disbursed on a reasonable lapse of time. a) The program maintains a monthly average cash balance in books of \$12,454.
Criteria	OMB Common Rule, Subpart I, Section 570.489 (c), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the Pass-through Grantor and disbursements made by the Municipality.
Cause of Condition	The Municipality’s cash management internal controls procedures failed to assure that funds requested to the pass-through grantor were disbursed in accordance with Program regulation.
Effect of Condition	The Municipality is not in compliance with OMB Common Rule, Subpart I, Section 570.489 (c).
Recommendation	We recommend to the Municipality Management to maintain its cash management internal control procedures to assure compliance with the cash management requirement.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-08
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 01-01

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-09
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs
Requirement	Program Income
Statement of Condition	<p>During our internal control tests over program income requirements we noted that the Municipality did not maintain controls procedures to assure:</p> <ul style="list-style-type: none">a. That the program income was properly determined or calculated in accordance with stated criteria and that program income was only collected from allowable sources.b. That all program income was properly recorded in the accounting records.c. That program income was used in accordance with the program requirements and other applicable regulations.
Criteria	<p>Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.</p>
Cause of Condition	<p>The Municipality did not maintain internal controls in order to assure the properly determination; accountability; and use of program income.</p>
Effect of Condition	<p>The Municipality is not in compliance with the Code of Federal Regulations 24, Subpart I, Part 570.489 (d) (1).</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-09 (Continued)
Recommendation	We recommend management to develop internal control in order to assure that the program income be; properly determined and calculated; be properly recorded and used for allowable costs.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-10
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Financial Administration – Standards for Financial Management Systems
Statement of Condition	The Accounting System maintained for Early Head Start Program financial activities did not permit us the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibition of Early Head Start Program applicable statutes. The financial transactions were posted in a manual disbursement register, and then, at the end of each month, summarized journal entries were posted into an Computerized Accounting System. The Federal Cash Transactions Report (SF-272) and the Financial Status Report (SF-269) submitted to the Administration of Children and Families were prepared from financial information obtained from such Accounting Computerized System.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The Municipality did not maintain adequate internal controls to assure the accountability of all transactions in accordance with Federal regulations.
Effect of Condition	Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs or allowable activities.
Recommendation	We recommend to the Municipality Management to post detailed transactions in the Computerized Accounting System maintained for Early Head Start Program financial activities. If the Municipality taken such action, each cash outlay will be traced to the expenditures accounts.
Questioned Cost	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-10 (Continued)**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-11
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Matching, Level of Effort, Earmarking - Matching
Statement of Condition	During our matching requirements test we noted that the matching contributions for the program year ended April 30, 2001 could not be verifiable trace to the records maintained by the Municipality.
Criteria	Code of Federal Regulations 45, Subpart C, Section 1301.20 states that the Municipality is required to contribute at least twenty percent (20%) of the cost of the program through cash or in kind contribution. Also, Code of Federal Regulations 45, Subpart C, Section 92.24 (b) (6) states that costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and sub-grantees or cost-type contractors. Those records must show how the value placed on third party in-kind contributions was derived.
Cause of Condition	The Municipality did not maintain appropriate internal control procedures to obtain adequate documentation toward the amount recorded in the accounting records as matching contribution.
Effect of Condition	Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs and matching share.
Recommendation	We recommend to the Municipality Management to follow regulations established through Code of Federal Regulations 45, Subpart C, Section 92.24.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-12
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Matching, Level of Effort, Earmarking – Administrative Cost Limits
Statement of Condition	The Accounting System maintained for Early Head Start Program financial activities did not provide for the classification of financial transactions between administration and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percentage (15%) administrative costs limit.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (a) (2) states that the grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The Municipality did not maintain adequate internal controls to assure the accountability of all transactions in accordance with Federal regulations.
Effect of Condition	Such condition may cause Municipality's non-compliance with certain compliance requirements like allowable costs, activities allowed and unallowed and earmarking.
Recommendation	We recommend to the Municipality Management to modify the Computerized Accounting System chart of accounts to create separate accounts for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-13
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Matching, Level of Effort, Earmarking – Enrollment Level
Statement of Condition	<p>During our enrollment level test we examined twenty-five (25) participants files and noted the following deviations:</p> <ul style="list-style-type: none">a. In twenty-five (25) participant files a signed statement by a Program staff identifying documents examined as part of income verification process and a statement that the applicant was eligible to participate in the Program was missing.b. In four (4) cases the participants came from families whose income exceeded applicable poverty guidelines. The Program staff that provided to us the list of participants to be used for sample selection represented to us that all of the Program participants come from families whose income was below poverty guidelines.
Criteria	<p>Code of Federal Regulations 45, Section 1305.4 (b) (1) states that at least ninety percentage (90%) of participants who are enrolled in each Early Head Start Program must be from low-income families. Code of Federal Regulations 45, Section 1305.4 (c) (d) (e) states that that family income must be verified by the Program staff before determining that an applicant is eligible; Program staff must verify income tax returns, W-2 forms, pay stubs and others; and must sign a statement identifying which of income supporting documents was examined. Also, Program staff must state that the participant is eligible to participate in the Program.</p>
Cause of Condition	<p>The Municipality did not maintain adequate internal controls to assure compliance with Program regulations.</p>
Effect of Condition	<p>Such condition may cause Municipality's non-compliance with earmarking - enrollment level requirements.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-13 (Continued)
Recommendation	We recommend to the Municipality Management to maintain a formal participants selection process which ensure compliance with the Early Head Start requirements.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-14
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Procurement and Suspension and Debarment
Statement of Condition	During our grant disbursements test we noted that the Municipality did not realize procurement by sealed bids (formal advertising) when procuring eight (8) computers, one (1) printer, including installation cost, with a total cost \$ 16,396. Also, price quotations were not obtained from an adequate number of qualified sources.
Criteria	Code of Federal Regulations 45, Subpart C, 92.36 (c) (1) states that all procurement transactions would be conducted in a manner providing full and open competition. Also, Chapter VIII, Part III, Section 1 of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico states that Municipality should realize formal bids for the purchase of goods or services which cost exceed \$10,000, and for construction projects which cost exceed \$40,000.
Cause of Condition	The Municipality procurement internal controls system failed to detect the requirement of a formal procurement process for such purchase. Items acquired through purchase order number 00-1812 were not included in the formal bid number 99-09, titled as "Acquisition of Office Equipment for the fiscal year ended June 30, 2001" but were acquired from adjudged supplier for such formal bid.
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 92.36 (c) (1) and with the Chapter VIII, Part III, Section 1, of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend that the Municipality should improve its procedures to assure that at least three (3) quotations are requested for all purchases of goods or services which cost not exceeded \$10,000 and for construction contracts that which cost not exceeded \$40,000. Also, the Municipality should realize formal bids for purchases which cost exceeded that limits.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-14 (Continued)**

Questioned Cost None

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-15
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that five (5) Contracts did not include provisions for contractual remedies when contractor violates contract term, including provision for such sanctions and penalties as may be appropriate, a provisions for granting access to GAO or other Federal agencies, to books, documents, other, provision for retention of all required records for a three year period and provision for debarment and suspension certification.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.36 (I) (1-13), states that grantee's contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	The Municipality did not maintain appropriate procurement standard procedures in order to assure that a contractor complies with some requirements.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart C, Section 92.36, (I) (1-13).
Recommendation	We recommend management to prepare a sample contract model, which include all contract provisions required by Federal statutes, Executive Orders, and implementing regulations.
Questioned Costs	None
Management Response	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-16
Program	Early Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services
Requirement	Reporting
Statement of Condition	<p>In our reporting test we observed the following deviations:</p> <ul style="list-style-type: none">a. The Federal Cash Transaction Report (SF-272) for the quarter ended on March 31, 2001 was submitted after due date. The report was submitted on May 23, 2001 through electronic version (PMS PSC-272).b. The Federal Cash Transaction Reports (SF-272) for the quarters ended on September 30, 2000, December 31, 2000 and June 30, 2001, does not reconcile with the General Ledger, principally due to a cash difference carry-over from prior periods.c. The Financial Status Reports (SF-269) for the semester ended on October 31, 2000 and April 30, 2001 were submitted after due date.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (1) states that the grantees must maintain fiscal controls and accounting procedures sufficient to disclose accurate, current, and complete financial results of financially assisted activities in accordance with the financial reporting requirements of the grant. Code of Federal Regulations 45, Subpart C, Section 92.40 has established regulations for financial reporting.
Cause of Condition	The Municipality's internal controls fail to assure the timely submission of reports required by program regulations.
Effect of Condition	The Municipality did not comply with the program regulations regarding timely submission of reports required.
Recommendation	We recommend that the Municipality should strength its internal controls and procedures in order to reduce the amount of time required to prepare and submit such reports.
Questioned Costs	None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-16 (Continued)**

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
Material Weakness Number 1	14.855 14.857	<u>The Municipality does not maintain accounting records in accordance with generally accepted accounting principles.</u> Full corrective action has been taken.
Material Weakness Number 3	14.855 14.857	<u>Lack of proper documentation (participants records) as required by law and program requirements.</u> Partial corrective action has been taken. The Municipality assigned a person to verify all participant records and request participants all necessary documents.
Reportable Condition Number 3	93.600	<u>Lack of proper documentation (participants records) as required by law and program requirements.</u> No corrective action has been taken. The Municipality will assign a person to verify the records in order to comply with this requirement.
Reportable Condition Number 4	14.228	<u>The Municipality acquired a motor vehicle</u> Audit finding in no longer valid, because the purchase of a motor vehicle with CDBG funds was approved by OCAM in the budget for the program year 1999. Thus, no finding to this purchase exists. Such evidence was not submitted to prior year auditor when requested by him.