

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

**MUNICIPIO DE SANTA ISABEL**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

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**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**GENERAL PURPOSE FINANCIAL STATEMENTS AND**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2002**  
**(WITH INDEPENDENT AUDITOR'S REPORT THEREON)**

**GONZÁLEZ TORRES & CO.**  
**Certified Public Accountant & Consultants**

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SINGLE AUDIT REPORT  
JUNE 30, 2002**

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# GONZÁLEZ TORRES & Co.

*Certified Public Accountants and Consultants*

Member of:  
Puerto Rico Society of Certified Public Accountants  
American Institute of Certified Public Accountants  
Association of Certified Fraud Examiners



## INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

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

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

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards 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, 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's accounting system and subsidiary record of property, plant and equipment did not provide competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. We were unable to satisfy ourselves about such amount. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

The Municipality did not provide us sufficient evidence of inter-fund transactions, including inter-fund receivables and payables, with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we were unable to satisfy ourselves about such transactions and amounts. We do not express an opinion on such transactions and amounts included in the general-purpose financial statements.

The Municipality did not provide for our review the details of certain accounts payable of prior years amounting \$593,514 and other accounts payable in the amount of \$110,766. Thus, we were unable to perform auditing procedures over these balances, which are included as part of the accounts payable for general fund.

**INDEPENDENT AUDITOR'S REPORT  
ON GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

Certain bank reconciliations amounting to \$83,237 were not provided for our review. We were unable to satisfy ourselves that the balances and transactions on these bank accounts were accounted for in the accounting records. The effect of adjustments, if any, are not included in the accompanying financial statements and the amounts were not determined by Municipality's Management.

As explained in the Note 10, the Municipality's management have a difference in the amount recognized as an account payable to one of its suppliers. A supplier confirmed a debt in the amount of \$608,000, but the Municipality recognized the amount of \$208,000 in its accounts payable, claiming through court proceedings that the company has an account payable with the Municipality in the amount of \$400,000. We were unable to confirm that amount due to this supplier is \$208,000. Thus, we are unable to express an opinion about this contingency.

In our opinion, except for the facts described in the third, four, fifth, sixth and seventh paragraphs of this report and the applicable adjustments, if any, 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, 2002, and the result of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 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 basic financial statements of Municipality of Santa Isabel taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

**INDEPENDENT AUDITOR'S REPORT  
ON GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

As described in the Note 10, the Municipality is a defendant in a lawsuit alleging political discrimination by ex-employees and other damages. The Municipality's management, after consultation with the Legal Counsel, have established a provision for a contingency liability in the amount of \$2,500,000 in the general long term debt account group. However, such amount is not final. Also, the Municipality's Management established a provision in the amount of \$355,200 in the general fund, for current period contingencies in cases that Municipality have to pay, after consultation with its lawyers. Other contingencies for claims against the Municipality are described in the Note 10, but no provision has been established by Management because the outcome of these cases are not presently determinable.

San Juan, Puerto Rico  
December 13, 2002

The stamp number 1840270  
was affixed to the original copy of this report.



*González Torres & Co. CSP*  
GONZALEZ TORRES & CO., CSP  
Licence Number 96  
Expires December 1, 2005

MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2002

ASSETS	Government Fund Types				Accounts Group		Memorandum Only 2002
	GENERAL	SPECIAL REVENUE FUNDS	DEBT SERVICE	CAPITAL PROJECT	GEN. FIXED ASSETS	GEN. LONG TERM DEBT	
Cash (Note 2)	\$ -	\$ 954,060	\$ 813,985	\$ 469,948	\$ -	\$ -	\$2,237,993
Cash with Fiscal Agent (Note 2)	587,291			146,591			733,882
Accounts Receivable:							
Due from Other Fund	5,115	330,992		206,007			542,114
Due from Federal Agencies		1,439,668		274,247			1,713,915
Gen. Fixed Assets (Notes 1-E, G and 6)					3,378,811		3,378,811
Due from Other Governmental Units	112,378						112,378
Amount To Be Provided for:							
Payment of Gen. Long Term Debt (Note 7)						5,380,031	5,380,031
Accrued compensated absences						1,011,018	1,011,018
Long Term Portion of Government Units (Notes 11 and 12)						878,999	878,999
Payment of certain claims and judgement (Note 10)						2,500,000	2,500,000
Payment of Health Reform						927,515	927,515
<b>TOTAL ASSETS</b>	<b>\$ 704,784</b>	<b>\$2,724,720</b>	<b>\$813,985</b>	<b>\$1,096,793</b>	<b>\$3,378,811</b>	<b>\$10,697,563</b>	<b>\$19,416,656</b>
<b>LIABILITIES AND FUND EQUITY (DEFICIT)</b>							
Liabilities:							
Accts. Payable & Acc. Liab.	\$2,792,881	\$ 429,567	\$ -	\$ 300,798	\$ -	\$ -	\$3,523,246
Due to Other Fund	111,886			5,115			117,001
Bank overdraft	178,589						178,589
Mature Bonds and Notes Payable (Note 7)						5,380,031	5,380,031
Long Term Portion of Government Units (Notes 11 and 12)						878,999	878,999
Accrued Vacation and Sick Leave (Note 1-M)						1,011,018	1,011,018
Contingencies (Note 10)	355,200					2,500,000	2,855,200
Account payable to Department of Health						927,515	927,515
Deferred Revenues (Notes 4)	480,577	1,451,234		77,354			2,009,165
Due to Other Government Units (Note 11)	1,707,413						1,707,413
<b>TOTAL LIABILITIES</b>	<b>5,626,546</b>	<b>1,880,801</b>	<b>-</b>	<b>383,267</b>	<b>-</b>	<b>10,697,563</b>	<b>18,588,177</b>
Invest. In Gen. Fixed Assets (Note 6)					3,378,811		3,378,811
FUND BALANCES (DEFICIT):							
Designated funds (Note 1)		843,919	813,985	713,526			2,371,430
Deficit	(4,921,762)						(4,921,762)
<b>TOTAL FUND EQUITY (DEFICIT)</b>	<b>(4,921,762)</b>	<b>843,919</b>	<b>813,985</b>	<b>713,526</b>	<b>3,378,811</b>	<b>-</b>	<b>828,479</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 704,784</b>	<b>\$2,724,720</b>	<b>\$813,985</b>	<b>\$1,096,793</b>	<b>\$3,378,811</b>	<b>\$10,697,563</b>	<b>\$19,416,656</b>

SEE NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENT FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

MEMORANDUM  
ONLY

	GOVERNMENTAL FUND TYPES				2002
	GENERAL	SPECIAL REVENUE FEDERAL	DEBT SERVICE	CAPITAL PROJECT	
<b>REVENUES:</b>					
Property Taxes (Note 3)	\$1,502,195		\$625,455		\$2,127,650
Volume of Business Tax	628,625				628,625
Intergovernmental Revenues	2,953,878	787,108		364,541	4,105,527
Rent of Properties	64,900				64,900
Other Revenues	33,889				33,889
Licenses and Permits	720,004				720,004
Interest	17,931				17,931
Federal Financial Assistance		1,797,991		2,505,354	4,303,345
<b>TOTAL REVENUES</b>	<b>5,921,422</b>	<b>2,585,099</b>	<b>625,455</b>	<b>2,869,895</b>	<b>12,001,871</b>
<b>EXPENDITURES:</b>					
Municipal Council	214,336				214,336
Administration	3,394,040	1,521,081		129,006	5,044,127
Public Safety	164,357				164,357
Health, Sanitation & Welfare	868,050				868,050
Public Works & Transportation	3,523,298			92,035	3,615,333
Sports & Recreation	388,159				388,159
Special Local Projects and Welfare		193,747			193,747
Capital Outlays Federal Programs				2,467,181	2,467,181
Housing and Federal Welfare Programs		669,309			669,309
Debt Service:					
Principal Retirement,	115,000		260,000		375,000
Interest	55,244		166,304		221,548
<b>TOTAL EXPENDITURES</b>	<b>8,722,484</b>	<b>2,384,137</b>	<b>426,304</b>	<b>2,688,222</b>	<b>14,221,147</b>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<b>(2,801,062)</b>	<b>200,962</b>	<b>199,151</b>	<b>181,673</b>	<b>(2,219,276)</b>
<b>OTHER FINANCING SOURCES-TRANSFERS (USES):</b>					
TRANSFER TO CAPITAL PROJECT FUND		(40,565)			(40,565)
TRANSFER FROM CAPITAL PROJECT FUND		512,073			512,073
TRANSFER TO SPECIAL REVENUES FUND				(512,073)	(512,073)
ADJUSTMENT TO DUE TO OTHER FUNDS-GENERAL FUND	802,141				802,141
TRANSFER FROM SPECIAL REVENUE FUND				40,565	40,565
LOAN PROCEEDS (Note 7)	560,000			90,833	650,833
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,362,141</b>	<b>471,508</b>	<b>0</b>	<b>(380,675)</b>	<b>1,452,974</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER/ (UNDER) EXPENDITURES</b>	<b>(1,438,921)</b>	<b>672,470</b>	<b>199,151</b>	<b>(199,002)</b>	<b>(766,302)</b>
<b>FUND BALANCE (DEFICIT) JUNE 30, 2001</b>	<b>(3,482,841)</b>	<b>171,449</b>	<b>614,834</b>	<b>912,528</b>	<b>(1,784,030)</b>
<b>FUND BALANCE (DEFICIT) JUNE 30, 2002</b>	<b>(\$4,921,762)</b>	<b>\$843,919</b>	<b>\$813,985</b>	<b>\$713,526</b>	<b>(\$2,550,332)</b>

SEE NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
 BUDGET-GAAP BASIS AND ACTUAL  
 GENERAL AND DEBT SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAV)
<b>REVENUES:</b>						
Property Taxes (Note 3)	\$1,220,828	\$1,502,195	\$ 281,367	\$356,711	\$625,455	\$268,744
Local Taxes	735,000	628,625	(106,375)			0
Intergovernmental Revenues	3,047,302	2,953,878	(93,424)			0
Rent of Properties	10,000	64,900	54,900			0
Other Revenues	1,521,414	33,889	(1,487,525)			0
Licences and Permits	580,000	720,004	140,004			0
Interest	30,000	17,931	(12,069)			0
<b>TOTAL REVENUES</b>	<b>7,144,544</b>	<b>5,921,422</b>	<b>(1,223,122)</b>	<b>356,711</b>	<b>625,455</b>	<b>268,744</b>
<b>EXPENDITURES:</b>						
<b>CURRENT:</b>						
Municipal Council	225,015	214,336	10,679			
Administration	2,644,257	3,394,040	(749,783)			
Public Safety	225,194	164,357	60,837			
Health, Sanitation and Welfare	882,998	868,050	14,948			
Public Works	2,734,663	3,523,298	(788,635)			
Sports & Recreation	432,417	388,159	44,258			
Principal		115,000	(115,000)			
Interest		55,244	(55,244)			
Debt Service:						
Principal				223,894	260,000	( 36,106)
Interest				132,817	166,304	( 33,487)
<b>TOTAL EXPENDITURES</b>	<b>7,144,544</b>	<b>8,722,484</b>	<b>(1,577,940)</b>	<b>356,711</b>	<b>426,304</b>	<b>( 69,593)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>(\$2,801,062)</b>	<b>(\$2,801,062)</b>	<b>\$ -</b>	<b>\$191,151</b>	<b>\$ 191,151</b>

SEE NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Santa Isabel (the Municipality) was founded in 1841. The governmental system is composed of the executive and legislative body. The Mayor is the main Executive and is elected each four (4) years in the Puerto Rico's general elections. The legislative body is composed of twelve (12) Assemblymen each of whom is elected every four (4) years.

The Municipality provides services such as public safety, recreation and culture, housing and community development, public health, sanitation, construction and/or improvements of streets and other general and administrative services.

The Municipality's accounting policies conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant policies:

**(A) REPORTING ENTITY**

The financial statements of the Municipality consist only of the governmental funds and account groups of the Municipality. The Municipality has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Municipality. Control or dependence is determined on the basis of budget adoption, taxing authority, and funding.

**(B) USE OF ESTIMATES**

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(C) BASIS OF PRESENTATION- FUND ACCOUNTING**

The Municipality accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund operation is accounted by its own group of self-balancing accounts that comprised its assets, liabilities, fund balances, revenues and expenditures. The Municipality funds are allocated to, and accounted for individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002

(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

(D) 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 funds.

**General Fund-** is the general operating fund of the Municipality. It is used to record all the financial resources and the majority of current operations except for those required to be accounted in other funds.

**Special Revenue Fund-** are funds legally restricted for specific purposes. The Municipality maintains a separate Special Revenue Fund for each Federal or State grant program. The financial statements have been prepared for reporting purposes by combining those funds which are similar in nature or are funded by the same grantor agency.

**Debt Service Fund-** is used to account for the accumulation of resources assigned for the payment of principal, interest and related costs of general long-term debt. The main source of this fund is property taxes and interests.

**Capital Project Fund-** The capital project fund is used to record the financial resources for the acquisition or construction of permanent major improvements, except projects financed by special revenue funds. The principal sources of revenues are federal funds, municipal long-term debt proceeds, and legislative appropriations.

Long Term Liabilities expected to be financed from governmental funds are accounted for in the general long-term debt account group, not in the governmental fund.

Capital expenditures and permanent improvements financed through governmental funds are accounted for under the general Fixed Assets account group.

The two account groups are not "Funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**(E) GOVERNMENTAL FUND TYPES (CONTINUED)**

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to excluded amounts represented by non - current liabilities. Since they do not affect net current assets, these long - term amounts are not recognized as governmental fund type expenditures of fund liabilities. They are instead reported as liabilities in the general long - term debt account group.

**(F) ACCOUNT GROUPS**

Account groups are not funds and are used to establish accounting control and to account for general fixed assets and general long-term debt of the Municipality. They are not involved with measurement of results of operations.

**(G) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES**

The accounting and reporting treatment applied to the Fixed Assets and Long-Term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "Financial Flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (Net Current Assets) is considered a measure of "Available Spendable Resources". Governmental fund operating statements present increases (Revenues and Other Financing Sources) and decreases (Expenditures and Other Financing Uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of " Available Spendable Resources" during a period.

Fixed assets used in governmental fund type operations (General Fixed Assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain (Infrastructure) general fixed assets consisting of certain improvements other than Building, including Roads, Bridges, Curbs and Gutters, Streets and Sidewalks, Drainage Systems and Lighting Systems, have been capitalized. Such assets are normally immovable and of value only to the city. Depreciation has not been provided on general fixed assets.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES  
(CONTINUED)**

**(H) GENERAL FIXED ASSETS AND GENERAL LONG-TERM LIABILITIES (CONTINUED)**

The general fixed assets acquired are recorded as expenditures in the government fund and will be capitalized at cost in the general fixed assets account group. Donated general fixed assets will be recorded at their estimated fair market value at the time they were received by the Municipality. The general long-term debt account group recognized the debt for long-term basis.

**(I) BASIS OF ACCOUNTING**

The Municipality uses the modified accrual basis of accounting. Under this method, revenues are recorded when they are measurable and available for disposition. Available for disposition means the immediate collection of revenues is within the current accounting period or immediately after it, in a way that the amount may be used to pay short term debts.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the principal and interest on general long-term debt which is recognized when due.

To account for inter-governmental revenues some legal contractual requirements of the diverse individual programs are used. Essentially there are two kinds of revenues. Some revenues are budgeted for restricted use and, therefore, are recorded using the expenditures for which they were budgeted as their base. Therefore, revenues are recognized based upon the disbursements made. For other types of revenue, the resources are without restrictions as to the expenditures.

**(J) ENCUMBRANCES**

The accounting of segregation of funds for encumbrances is used in the Municipal funds. By these encumbrances, the purchase orders, contracts and engagements for the disbursement of funds, are properly recorded in a way that the correct amount for the future obligations are reserved. The encumbrances amounts related to future obligations are presented as a reserve of the fund balance because they do not represent disbursements or liabilities. However, the Municipality does not maintain the encumbrance systems since the information is not available.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(1) ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**(K) BUDGETARY DATA**

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

- (1) Prior to May 31, the Mayor 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.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make the necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting except for encumbrances as described below.

The actual results of operations, presented in the Statement of Revenue and Expenditures-Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and accounting bases is that encumbrances are recorded as expenditures under the accounting basis. The budget prepared for each of the special revenue funds is based in a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue fund.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**(K) BUDGETARY DATA (CONTINUED)**

The necessary adjustments to convert the results of operations of the general fund from the accounting basis to the budgetary basis are as follows:

Accounting basis per the combined Statement of Revenues, Expenditures and Changes in Fund Balances	(\$2,801,062)
Adjustments:	
Funds received below budget	1,223,122
Funds spent over budgeted expenditures	<u>1,577,940</u>
Budgetary Basis per the Combined Statement of Revenues and Expenditures - Budget and Actual	<u>\$ -</u>

**(L) PROPERTY, PLANT AND EQUIPMENT**

The general fixed assets acquired are recorded as expenses in the governmental funds and are capitalized at cost in the general fixed assets accounts group. The general fixed assets donated to the Municipality are recorded at estimated market value at donation date. Interest incurred for construction period are not capitalized and no depreciation is provided on general fixed assets.

**(M) COMPENSATED ABSENCES**

The vacation policy of the Municipality provides for the accumulation of 2.5 days per month. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Sick-leave accumulates to all employees at a rate of 1.5 days per month up to a maximum of 90 days. Law number 156 of August 20, 1996, amendment section of Law 5 of October 14, 1975, as amendments. The referred law requires from the Governmental Agencies the liquidation of any excess of sick leave and vacations accrued in excess of the maximum amount authorized by the Law. For regular vacation the maximum number of days allowed to be accrued is 60 days and the excess must be paid after the month of June of every fiscal year. For sick leave the maximum number of days allowed to be accrued are 90 days and such excess must be paid after December of every year. The disposition of this law was effective after June 30, 1997. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave to the maximum allowed.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(1) ORGANIZATION, OPERATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Employees maximum allowed accumulated vacations and sick leave together with the employers share of payroll taxes are accounted for in the General Long-Term Debt Account Group.

**(N) INSURANCE**

The Municipality has insurance coverage for its public facilities, mainly to provide protection from fortuitous losses. Also, the Municipality's principal officials are covered with fidelity bonds. The Secretary of the Department of Treasury of Puerto Rico is the agent in charge to obtain and pay the insurance coverage of the Municipality. Corresponding premiums payable by the Municipality are withheld by the Municipality Revenue Collection (CRIM for its Spanish acronyms) and paid to the Treasury from the advances of annual property taxes.

**(O) FEDERAL AND STATE GRANT REVENUE**

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

**(P) TOTAL COLUMNS**

The data presented under this column represents the aggregate amount of the different types of funds and account groups. The total amounts under this column do not result from a consolidation and, therefore, do not present a consolidated information. The accounts between funds have not been eliminated.

**(Q) INTER-FUND TRANSACTIONS**

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the other federal and state funds.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(2) CASH**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. The cash balances presented in the balance sheets are mainly bank accounts with a financial institution and the Governmental Development Bank. No certificates of deposit exist as of June 30, 2002. The investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and short-term investments individually by fund in the general purpose financial statements. Interests earned on certificates of deposit and other short-term investments are recognized as a revenue of the general fund.

The Municipality's deposits with commercial financial institutions at June 30, 2002 were entirely covered by Federal Depository Insurance or collateral held by the Treasury Department of the Commonwealth of Puerto Rico.

Cash with fiscal agent is composed of cash held by the Governmental Development Bank restricted by the Municipal Bonds Trust Indenture and also by the Puerto Rico Treasury Department for the payment of principal and interest on bonds and notes payable for long-term debt, and those funds are not available to be used for other purposes.

**(3) PROPERTY TAXES**

The "Municipal Revenue Collection Center" (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality, and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property were established at estimated current values in 1957 and for personal property are based at the current value at the date of the assessment.

Real property taxes are billed by "CRIM" and due in the two equal installments in July and January following the assessment date. Personal property taxes are self assessed and are due on May 15<sup>th</sup>, when the related property tax return is required to be filed.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(3) PROPERTY TAXES (CONTINUED)**

The tax rate per annum is 8.33% for real property and 6.33% for personal property of which 1.03% of both belong to the Commonwealth of Puerto Rico and 7.3% and 5.3%, respectively belong to the Municipality. From the portion belonging to the Municipality, 6.0% and 4.0%, respectively, represents the Municipality's basic tax rate which is appropriated for general purposes, and, therefore, accounted for through the general fund. The remaining portion belonging to the Municipality of 1.2% represents the "ad valorem" tax withheld by "CRIM" and restricted for debt service which is accounted for through the debt service fund. The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the "ad valorem" tax rate.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico for the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exception is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

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. However, the Municipality receives the full amount levied.

**(4) MUNICIPAL BUSINESS TAXES**

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their annual declarations by April 15<sup>th</sup>.

The tax rates are as follows:

- 1.5% for financial institutions, thrift and loan associations.
- From .3% to .5% for all other non-financial organizations.

Taxes are payable in two equal semiannual installments on or before July 1 and January 1 following the levy date. A 5% of discount is granted only if the total amount is paid on or before the filing date of April 15<sup>th</sup>. Collections of taxes applicable to the next fiscal year are recorded as deferred revenues.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
 NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2002**

**(5) INTERGOVERNMENTAL REVENUES**

Sources of intergovernmental revenues consist primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi-public corporations, such as the Puerto Rico Electric Authority and the Puerto Rico Aqueduct and Sewer Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to the special revenue fund.

**(6) GENERAL FIXED ASSETS**

The following is a summary of the general fixed assets as of June 30, 2002:

A summary of changes in general fixed assets follows:

	Beginning Balance	Additions	Retirements	Ending Balance
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Equipment, real estate and other	<u>\$2,960,009</u>	<u>\$435,621</u>	<u>\$ 16,819</u>	<u>\$3,378,811</u>

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**(7) GENERAL AND SPECIAL OBLIGATIONS**

The general long-term debt of the Municipality is recorded in a separate self-balancing accounts group. Loans and bonds payable with Ad Valorem property taxes are paid through the debt service fund. During the year, the Municipality obtained two loans in the amount of \$560,000 (\$405,000 and \$155,000) which were used for payment of accounts payable to supplies and other government debts. Also received a loan from Rural Economic Development in the amount of \$300,000.

The following is the long-term debt, payable to Government Development Bank for Puerto Rico at June 30, 2002:

**Loans Payable with Special Lottery Fund:**

\$1,400,000 note payable Series of 1999 payable in semi annual installments ranging from \$95,000 to \$195,000 through July 2008, interest from 6% to 6.06%	\$1,085,000
\$405,000 note payable Series of 2002 payable in semi annual installment ranging from \$5,000 to \$30,000 through July 2030, interest at 12%	<u>\$405,000</u>
	\$1,490,000

**Loans Payable with Ad Valorem Property Taxes:**

\$155,000 Series of 2002 in annual installments ranging from \$20,000 to \$25,000 through July, 2008, interest ranging from 5.00% to 7.30%	155,000
\$182,500 Series of 1980 payable in annual installments of \$10,000 through January, 2004, interest at 5.00%.	20,031
\$390,000 Series of 1984 payable in annual installments ranging from \$15,000 to \$26,000 through January, 2009, interest at 5.00%.	161,000
\$324,000 Series of 1987 payable in annual installments ranging from \$11,000 to \$23,000 through January, 2011, interest at 5.00%.	168,000
\$361,000 Series of 1992 payable in annual installments ranging from \$10,000 to \$25,000 through January 2016, interest at 5.00%.	264,000
\$33,000 Series of 1994 payable in annual installments ranging from \$1,000 to \$2,000 through January 2018, interest at 4.5%.	25,000

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**(7) GENERAL AND SPECIAL OBLIGATIONS (CONTINUED)**

\$215,000 Series of 1994 payable in annual installments ranging from \$5,000 to \$15,000 through January 2018, interest at 4.5%.	169,000
\$630,000 Series of 1997 payable in annual installments ranging of \$10,000 to \$60,000, through July 2020, interest accrued at prevailing rates.	575,000
\$205,000 note payable Series of 1997 payable in quarterly installments ranging from \$5,000 to \$20,000 through July 2023, interest accrued at prevailing rates.	185,000
\$235,000 Series of 2000 payable in annual installments ranging of \$10,000 to \$30,000, through July 2011, interest accrued at prevailing rates.	210,000
\$580,000 Series of 2001 payable in semi annual installments ranging of \$35,000 to \$80,000, through July 2010, interest ranging from 5% to 8%	545,000
\$755,000 Series of 2001 payable in semi annual installments ranging of \$5,000 to \$65,000, through July 2025, interest ranging from 5% to 7.50%	750,000
\$229,000 note payable Series of 1999 payable in annual installments ranging from \$41,000 to \$50,000 through January 2004, interest accrued at prevailing rates.	98,000
\$300,000 USDA Rural Development note obligation. The amortization period can not determined until the total disbursement was made.	300,000
\$410,000 note payable Series of 2000 payable in annual installments ranging from \$70,000 to \$95,000 through January 2004, interest accrued at prevailing rates.	<u>265,000</u>
	<u>\$3,890,031</u>
	<u>\$5,380,031</u>

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

The annual requirements to amortize the general long-term debt outstanding as of June 30, 2002, including interest payments of \$2,181,581 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2003	\$ 711,554
2004	727,624
2005	649,736
2006	577,434
2007 and there-after	<u>4,895,264</u>
Total	<u>\$7,561,612</u>

The principal and interests requirement for the year ending June 30, 2002 will be provided as follows:

	<u>Ad Valorem Property Taxes</u>	<u>Special Lottery Fund</u>	<u>Totals</u>
Principal	\$300,000	\$155,000	\$455,000
Interests	<u>214,871</u>	<u>41,683</u>	<u>256,554</u>
	<u>\$514,871</u>	<u>\$196,683</u>	<u>\$711,554</u>

**(8) DEBT SERVICE FUND**

Revenues of the debt service fund consist of accretion of discounts on investments which are recorded as interest income on investments and the ad valorem property taxes which are recognized as revenue when they are collected and reported by the Municipal Revenue Collection Center (CRIM). CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality. CRIM pays to the Municipality interests over the average balance maintained for debt service.

Principal and interest on these obligations were paid to the Governmental Development Bank from funds obtained from the following:

Property taxes	<u>\$625,455</u>
Payments as of June 30, 2002 were as follows:	
Principal	\$260,000
Interests	<u>166,304</u>
	<u>\$426,304</u>

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(9) EMPLOYEE'S RETIREMENT PLAN**

The Municipality's regular employees participate in the retirement system of the Commonwealth of Puerto Rico (RSCPR), an agent multiple-employer public employee retirement system. Retirement and related benefits provided by the RSCPR and required contributions to the RSCPR by employees are determined by Law No. 447, approved May 15, 1951, as amended. Required contributions by the Municipality are determined by the Administrator of the RSCPR. Through March 1990, member's contribution were 4.5% on 7% and Municipality's contribution 7% or 8% of gross salary. Effective April 1990 member's contributions were increased to 5.777% or 8.275% and the Municipality's contribution to 9.275% of gross salary.

The present value of the accrued benefits and the assets of the RSCPR pertaining to the Municipality employees was not available as of June 30, 2002.

**(10) CONTINGENCIES**

The Municipality is defendant or co-defendant in various pending lawsuits amounting more than \$5,000,000. Those legal claims are expected to be judged. The Legal Counsel has issued an opinion about the results of these claims against the Municipality, and the Municipality's Management, after consultation, established a provision for a contingency liability, considering the best defense from the Municipality, in the amount of \$2,855,200 to respond for these claims. The financial statements include the amount of \$2,500,000 in the general long term debt account group and \$355,200 for the general fund for current period.

Also, the Municipality has other claims for the amount of \$2,937,865, that are expected to be judged, but not included in Financial Statement. These claims are still undecided and the outcome of the same cannot be determined.

The Municipality did not recognize an account payable to one of its suppliers. The supplier alleged that Municipality has an account payable in the amount of \$608,000, but the Municipality recognized an account payable in the amount of \$208,000, which was included in the accounts payable in the general fund. The Municipality established a demand in the amount of \$400,000, alleging breach of contract.

The Municipality participates in a number of federal financial assistance programs. These programs may still be subject to financial and compliance audits and resolutions of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the Municipality's Management understands that claim, if any, as a result of monitoring or audits by any agency will be immaterial considering the financial statements as a whole.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(11) DUE TO OTHER GOVERNMENTS UNITS**

Due to other governmental units as of June 30, 2002 consists of liabilities that will be paid during the fiscal year 2001-2002 by the General Fund and a long term portion accounted for in the General Long Term Debt Account Group as follows:

**General Fund:**

Water and Sewer Authority of Puerto Rico	\$370,408
Power and Electricity Authority of Puerto Rico	48,583
Administration of Retirement Systems of Puerto Rico	189,428
Puerto Rico Telephone Company	42,189
Association of the Employees of the Commonwealth of Puerto Rico	11,330
General Service Administration	3,671
Department of Treasury-Income Tax	146,021
Internal Revenue Services	631,791
Department of Treasury-Property Tax Advance, Current Portion	37,902
Department of Labor and Human Resources	183,854
Municipal Taxes Collection Center, Current Portion	<u>42,236</u>
	<u>\$1,707,413</u>

**General Long Term Debt Account Group:**

Municipal Taxes Collection Center	515,897
Department of Treasury-Property Tax Advance	243,202
Department of Labor and Human Resources	<u>119,900</u>
	<u>\$ 878,999</u>

**(12) PAYMENT PLANS:**

The Municipality maintains two payment plans with other Governmental Agencies as follows:

- (1) Puerto Rico Labor and Human Resources Department by the amount of \$303,753, payable in monthly installments of \$29,975 due in October, 2003.
- (2) Municipal Revenue Collection Center (CRIM) by the amount of \$559,133, corresponding to the debt of the fiscal year 1997-1998, payable in (155) one hundred fifty five monthly installments of \$3,603 since July 1, 2002. The installments are deducted from the monthly reimbursement of real and personal property taxes collected by the Municipal Revenue Collection Center (CRIM).

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(13) DEBT OF WASTE DISPOSAL**

The Municipality of Santa Isabel maintained a contract with Browning Ferries Industries Corporation (BFI) for waste disposal. The contract established the terms and conditions, payment method, penalties, among other operating and service commitments. During the month of August 1999, BFI Corporation discontinued the services for waste disposal. The account payable to BFI Corporation was \$992,353 as of June 30, 2002.

During the fiscal year 2000, the Municipality contracted with L.M. Waste Services (LM) to provide waste disposal services. The account payable to L.M. Waste Services was \$608,000 as of June 30, 2002, but the Municipality recognized the amount of \$208,000 alleging damages. LM demanded to the Municipality alleging breach of contract. Claims and contingencies are explained in the note 10 of these financial statements.

Both debts are reported on accounts payable and accrued liabilities in financial statements.

**(14) GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34 (Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments). GASB-34 will significantly change the way in which the Municipality reports its finances.

GASB-34 established two bases for reporting financial information: government-wide-financial statements and fund presentation. The government-wide financial statements method adopts the flow of economic resources measurement focus and accrual basis of accounting for both governmental activities and business-type activities. The basis for statements except the focus for presentation is on major funds rather than fund types. Capital assets and depreciation charges are reported on the entity-wide perspective financial statements. The Management's discussion and analysis information precedes the basic financial statements but is considered required supplementary information. Budgetary information is no longer presented in the financial statements but rather is presented as required supplementary information. GASB-34 will begin to take effect for the Municipality in fiscal year after June 15, 2002.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**(15) SUBSEQUENT EVENTS**

The following subsequent events have occurred after the year ended June 30, 2002:

1. \$1,850,000 note payable issuance at interest of 1.25% over the prime rate with a floor of 5%. The loan was obtained for the payment of accounts payable and loans payable (\$1,400,000 and \$405,000 loans) by December 12, 2002. Certain accounts payable to governmental agencies will be paid. The loan will be paid annually by July 1, and has a maturity date of 25 years.
2. \$730,000 note payable issuance at interest of prevailing rate with a floor of 5%. The loan was obtained for the construction of improvements for capital projects. The loan was obtained by December 11, 2002. The loan will be paid annually by July 1, and has a maturity date of 25 years.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR PASS-THRU	FEDERAL GRANTOR NUMBER	EXPENDITURES
<u>Department of Housing and Urban Development:</u>		
<u>Direct Program:</u>		
<u>Section 8:</u>		
Rental Voucher Program	14.855	\$ 276,546
Urban Development Action Grant	14.221	<u>195</u>
<u>Pass-Through the Office of The Commissioner of Municipal Affairs (OCAM):</u>		
State Block Grant Program-Small Cities Program- (Program Year 1999)	14.219	538,323
Community Development Block Grant Program- (Program Year 2000)	14.219	554,498
Community Development Block Grant Program- (Program Year 2001)	14.219	<u>373,576</u>
		<u>1,466,397</u>
<u>US Department of Justice</u>		
Public Safety Partnership and Community Policing Grants	16.710	<u>149,687</u>
<u>Federal Emergency Management Agency</u>		
<u>Pass-Through the Governor's Authorized Representative (GAR) of the Government of Puerto Rico</u>		
Public Assistance Grant-Hortense	83.544	496,170
Public Assistance Grant-Georges	83.544	90,674
Public Assistance Grant- Dean	83.544	<u>91,909</u>
		<u>678,753</u>

MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
 FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR PASS-THRU	FEDERAL GRANTOR NUMBER	EXPENDITURES
<u>US Department of Health and Human Services</u>		
<u>Pass-Through The Administration for Children and Families:</u>		
Early Head Start Programs	93.600	<u>948,925</u>
SENDEC- Summer	Not available	<u>134,014</u>
Community Services Block Grant	93.569	<u>36</u>
Elderly Nutrition Program	Not available	<u>9,968</u>
Child Care and Development Fund (SENDEC)	93.575	<u>278,815</u>
		<u>1,371,758</u>
<u>US Department of Transportation:</u>		
Federal Transit-Capital Investment Grant	20.500	<u>359,660</u>
<u>US Department of Agriculture:</u>		
Rural Economic Development	10.854	<u>91,182</u>
<b>Total</b>		<b><u>\$ 4,394,178</u></b>

See notes to the Schedule of Federal Financial Assistance.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2002**

**(1) GENERAL**

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal assistance programs of the Municipality of Santa Isabel, Puerto Rico. The Municipality of Santa Isabel is the reporting entity as defined in note 1 to the general purpose financial statements. Part of the federal financial assistance received were passed-through funds from federal agency to Office of Commissioner of Municipal Affairs (OCAM).

**(2) BASIS OF ACCOUNTING**

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting which is described in note 1 to the general purpose financial statements.

**(3) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Expenditures included in the accompanying Schedule agree with the amounts included in the general purpose financial statements as follows:

<u>Funds</u>	<u>Federal Assistance</u>	<u>Municipal or State Assistance</u>	<u>Total included in the financial statements</u>
<u>Special Revenues</u>			
Administration	\$ 1,128,682	\$ 392,399	\$ 1,521,081
Welfare	669,309	193,747	863,056
<u>Capital Project</u>			
Administration	129,006	-	129,006
Capital Outlays	<u>2,467,181</u>	<u>92,035</u>	<u>2,559,216</u>
	<u>\$ 4,394,178</u>	<u>\$ 678,181</u>	<u>\$ 5,072,359</u>

MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SUMMARY OF AUDIT RESULTS  
JUNE 30, 2002

## Summary of audit results:

### Part I Financial Statements:

1. Type of audit report:  

<input type="checkbox"/>	Unqualified opinion	<input checked="" type="checkbox"/>	Qualified opinion
<input type="checkbox"/>	Adverse opinion	<input type="checkbox"/>	Disclaimer of opinion
2. Reportable conditions reported:  

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
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3. Reportable conditions reported as a major weakness:  

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
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4. Material noncompliance disclosed:  

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
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### Part II Federal Awards:

1. Type of report: on compliance for major programs:  

<input type="checkbox"/>	Unqualified opinion	<input checked="" type="checkbox"/>	Qualified opinion
<input type="checkbox"/>	Adverse opinion	<input type="checkbox"/>	Disclaimer of opinion
2. Reportable conditions reported as a major weakness:  

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
-------------------------------------	-----	--------------------------	----
4. Material noncompliance disclosed:  

<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
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**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SUMMARY OF AUDIT RESULTS  
JUNE 30, 2000**

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

Yes                       No

5. Major Programs:

CFDA Number (s)	Name of Federal Program or Cluster
14.219	Community Development Block Grant - Small Cities
20.500	Federal Transit Administration
83.544	Federal Emergency Management Administration
93.600	Early Head Start Program

6. Dollar threshold used to distinguish Type A and Type B programs:

\$300,000 or 3% of total federal awards expended

7. Low-risk auditee                       Yes                       No

8. Waive risk criteria under 520 (i) of Circular A-133:

Yes                       No

# GONZÁLEZ TORRES & Co.

*Certified Public Accountants and Consultants*



Member of:  
Puerto Rico Society of Certified Public Accountants  
American Institute of Certified Public Accountants  
Association of Certified Fraud Examiners

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

To the Mayor and 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, 2002, and have issued our report thereon dated December 13, 2002, which were qualified because we were unable to audit the fixed assets and inter-fund transactions, among other scope limitations as described in the auditors' report over general purposes financial statements. Except as discussed in the auditors' report for general purpose financial statements, we conducted our audit in accordance with generally accepted auditing standards 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.

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 instances of noncompliance that is required to be reported under Government Auditing Standards and which are described in the Schedule of Findings and Questioned Cost, identified as items 2002-1 to 200-7. We also noted certain immaterial instances of noncompliance, which were reported to the Management of the Municipality of Santa Isabel in a separate letter dated December 13, 2002.

In planning and performing our audit, we considered Municipality of Santa Isabel's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and do not provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of 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. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2002-1 to 2002-7.

REPORT ON COMPLIANCE AND 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 all reportable conditions that all also considered to be material weaknesses. However, we believe that reportable conditions are material weaknesses, which are presented as material weaknesses 1 and 2 in the accompanying Schedule of Findings and Question Costs.

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

San Juan, Puerto Rico  
December 13, 2002

The stamp number 1840271  
was affixed to the original of this report.



*González Torres & Co. CSP*

GONZALEZ TORRES & CO., CSP  
Licence Number 96  
Expires December 1, 2005

# GONZÁLEZ TORRES & Co.

Certified Public Accountants and Consultants

Member of:  
Puerto Rico Society of Certified Public Accountants  
American Institute of Certified Public Accountants  
Association of Certified Fraud Examiners



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

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

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

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

We were unable to obtain sufficient documentation supporting the compliance of the Municipality with all major federal programs identified in the Summary of Audits Results, regarding real property acquisitions and relocation assistance and reporting, nor were able to satisfy ourselves as to the Municipality's compliance with those requirements by other auditing procedures. In addition, no accounting records are maintained for some of the above mentioned major programs to assure that all disbursements and transactions are accounted for. The accounting transactions are recorded at year end. The general purpose financial statements for the year ended June 30, 2002 presented a qualified opinion.

In our opinion, except for the effects of such noncompliance, as described in the preceding paragraph, The Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

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

Internal Control Over Compliance

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

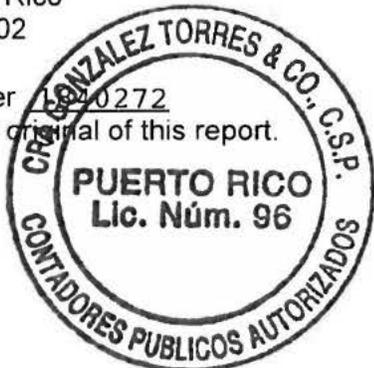
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that material weaknesses exist and are presented in the accompanying Schedule of Findings and Questioned Costs.

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

San Juan, Puerto Rico  
December 13, 2002

The stamp number 10272  
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*Gonzalez Torres & Co. CSP*  
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Expires December 1, 2005

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**MATERIAL WEAKNESSES:**

**Material Weakness Number 1:**

**Condition:**

Our audit of the Municipality of Santa Isabel revealed material weaknesses in the accounting records for municipal and federal funds. The major deficiencies were the following:

1. The Municipality does not maintain general ledger for most of its funds, and no subsidiary records exist for most of its funds and accounts. The accounting transactions are reconciled at the year end only, through the year end closing of budget and actual.
2. The Municipality does not maintain a trial balance for some the following major and minor programs, State Block Grant Program (SBGP), Federal Transit Administration (FTA), UDAG, Rural Economic Development (RECD), FEMA, COPS, Child Care, Community State Block Grant (CSBG).
3. The Section 8 Rental Voucher Program does not reconcile the cash balance presented in its trial balance with the cash on bank, presented a difference of \$11,229.61.
4. The Municipality does not maintain subsidiary records for accounts receivable and accounts payable for all governmental fund types, except for general fund which a subsidiary record was presented.

**Questioned cost:**

Questioned costs cannot be determined by our tests.

**Criteria:**

Reporting requirements of Circular OMB-133 and accounting controls as per program requirements. The Municipality must maintain internal control over the compliance of requirement for its major programs and for the general accounting as a reporting entity.

**Cause and effect:**

The Municipality did not supervise the requirements established for major and non major programs. This represents that funds may be granted to participants whom are not qualified to receive federal funds and raised questioned costs.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Recommendation:**

The Municipality must follow the compliance requirements as per OMB-133 to assure that federal funds are granted to qualified participants.

**Material weakness Number 2:**

**Condition:**

On the samples selected to test the compliance with local and federal regulations is the recruitment process, we found lack of proper documentation in some employee files with respect to the evaluation of the general conditions to the enrollment of employees, as required on the Autonomous Municipality's Law, title 21, Section 4557 and Section 4572, and other federal regulations.

**Questioned Cost:**

No questioned cost were found.

**Criteria:**

Section 4557 refers to the rules and regulations which govern the recruitment and selection of an employee and establishes general conditions to the employment of a candidate such as:

1. Be physically and mentally able to perform his duties and assignments.
2. Be a citizen of the United States of America or a legal alien authorized to work in the United States of America. Section 4572 refers to rules and regulations which govern the employee file maintenance and retention. This section requires that each Municipality must maintain an employee file in a complete fashion with all relevant data since the commencement of their duties to the date of termination.

**Cause and effect:**

On the sample of thirty (33) employees, to test the payroll process, dated June 30, 2002, we found the following documents missing:

1. Four (4) employee files did not include the Police Department's Good Behavior Certificate.
2. Seven (7) employee files did not include or renovate the Good Health Certificate.
3. Fourteen (14) employee files did not include the I-9 form.
4. All employee files examined (33) did not include a document in which the employee acknowledges receipt of the employee manual and knowing that the Municipality is a drug free workplace.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Recommendation:**

Adherence to policies and procedures established by the Municipality and in accordance with the regulations referred to this condition, and require the review of each employee file to watch compliance in terms of the documentation missing on it.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-1**

**Federal Program:**

**FEMA (CFDA 83.544)**

**Requirement: Internal Control**

**Noncompliance: Allowable Cost/Cost Principles**

**Condition:**

We noted in our test of the Municipality's internal control over disbursement process, that the disbursement voucher paid to Salinas Asphalt, Inc, check number 1201, in the amount of \$44,995, for Hurricane Dean, was not available for our examination.

**Criteria:**

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule) requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets. To assure that they will be used solely for authorized purposes.

**Effect:**

Municipality cannot assure that payment was made.

**Cause:**

There are no adequate internal control procedures implemented to assure this compliance.

**Recommendation:**

The Municipality should improve their disbursement process in order to comply with the internal control structure.

**Questioned Costs: \$44,995.**

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-2**

**Federal Program:**

FEMA (CFDA 83.544)  
Section 8 (CFDA 14.855)  
Head Start (CFDA 93.600)

**Requirement: Internal Control**

**Noncompliance: Allowable Cost/Cost Principles**

**Condition:**

In our tests of the Municipality's internal control over disbursement process, we found that the supporting documents corresponding to one disbursement of FEMA; one disbursement of Section 8 and six of Head Start, were not stamped as paid and were not pre-audited. Also, for one disbursement of the Head Start program a copy was presented, instead of, the original document. In Head Start program three disbursements did not have a receiving report.

**Criteria:**

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also, Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule) requires grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets. To assure that they will be used solely for authorized purposes.

**Effect:**

Liabilities could be paid twice by the Municipality, which may be an unallowable cost. Also Municipality can not assure that the merchandise was received.

**Cause:**

There are no adequate internal control procedures implemented to assure this compliance.

**Recommendation:**

The Municipality should improve their disbursement supporting documents in order to assure compliance with the internal control structure.

**Questioned Costs:** None.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-3**

**Federal Program:**

SBGP (CFDA 14.219)  
Section 8 (CFDA 14.855)  
Head Start (CFDA 93.600)  
Federal Transit Administration (CFDA 20.500)

**Requirement: Cash Management**

**Condition:**

During our audit we noted that the Federal Financial Assistance is sometimes requested and not used to cover immediate expenditures incurred. We found that programs held excess cash on bank accounts. Also, the reconciliations are not made on a timely basis, so no cash management is maintained.

**Criteria:**

OMB Circular A-133, Cash Management compliance requirement, stated that recipients must follow procedures to minimize the time elapsing between the transfer of funds from US Treasury and the disbursement.

**Cause:**

Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.

**Effect:**

The Municipality held excess of cash and it could be understood that Federal Program Department is requesting funds in excess of the immediate expenditures incurred.

**Recommendation:**

We recommend the Municipality's Management to improve their forecasts procedures, in order to comply with this requirement.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-4**

**Federal Program:**

**Head Start (CFDA 93.600)**

**Requirement: Eligibility**

**Condition:**

During our audit of participant tests we found that some of the participants' records did not have the following evidences:

1. Birth Certificate (in one file record).
2. Housing address verification (in one file record).
3. Date accepted (in three file records).
4. Child Age (in three file records).
5. Mother Age (in one file record).
6. Health Insurance (in three file records).
7. Low Income verification (in two file records).
8. Vaccines (in four file records).
9. Completed Application Date (in nineteen file records).

**Criteria:**

45 CFR Subpart C, section 1305.4, stated the program's eligibility criteria.

**Cause:**

Municipality did not assure that participants comply with the requirements prescribe by law to participate in the program.

**Effect:**

The Municipality did not comply with the requirement prescribed by the Agency.

**Recommendations:**

We recommend to the Municipality's Management to examine the participants records and to assure that contains all required documents, in order to comply with programs requirements.

**Questioned costs:** None.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-5**

**Federal Program:**

**FEMA (CFDA 83.544)**

**Requirement: Reporting**

**Condition:**

During our test of reporting, we found that the reporting required to FEMA was not available for our examination.

**Criteria:**

44 CFR Section 206.204(f), stated that is required to submit quarterly financial and progress reports.

**Cause:**

Municipality did not assure the status of the project and did not outline any problems or circumstances expected.

**Effect:**

The Municipality did not comply with the requirement prescribed by the Agency.

**Recommendations:**

We recommend to the Municipality's Management to prepare and submit the financial status report and progress report in order to comply with this requirement.

**Questioned costs:** None.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-6**

**Federal Program:**

Head Start (CFDA 93.600)

CSBG (CFDA 93.569)

UDAG (CFDA 14.221)

**Requirement:** Allowable cost/cost principle

**Condition:**

During our test of cash, we noted that bank charges were applied to Federal Programs.

**Criteria:**

OMB Circular A-87, "Cost Principle for State, Local and Indian Tribal Governments", stated the cost allowable and unallowable for federal programs.

**Cause:**

Program's fund was used for other purpose, instead of, the main purpose of program.

**Effect:**

The Municipality did not comply with the requirement prescribe by the Agency and there are no adequate internal control procedures implemented to assure this compliance.

**Recommendations:**

The Municipality should improve their disbursement supporting documents in order to assure compliance with the internal control structure.

**Questioned costs:** None.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF CURRENT FINDINGS AND QUESTIONED COST  
JUNE 30, 2002**

**Finding 2002-7**

**Federal Program:**

**Section 8 (CFDA 14.855)**

**Requirement: Cash Receipt**

**Condition:**

During our test of cash, we noted that Municipality did not issue collection receipt for electronic fund transfer from US Department of Treasury for the program, at the time when notification was received.

**Criteria:**

Code of Federal Regulations, Subpart I, CFR 24 Section 570.489 (d) (1) requires that the State shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. Also, Subpart C, 44 CFR, 13.20 (b) (3) (OMB Common Rule) requires to grantees and subgrantees to maintain effective control and accountability over grants and subgrants cash, real and personal property, and other assets. To assure that they will be used solely for authorized purposes.

**Cause:**

Municipality's internal control did not provide procedures to ensure that electronic fund transfer be recorded when received.

**Effect:**

There are no adequate internal control procedures implemented to assure this compliance.

**Recommendations:**

We recommend that the Municipality should implement internal control procedures in order to assure that all electronic fund transfers been recorded once notification was received.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF PRIOR FINDINGS  
JUNE 30, 2002**

**II Audit Findings not corrected or partially corrected:**

Finding number one (1): (June 30, 2001)

Reportable condition over Fixed/Capital Assets and Expenditures-Subsidiary Ledger.

All Federal Programs.

No questioned costs.

Comments: Situation still prevails.

Finding number two (2): (June 30, 2001)

Reportable condition over Financial Reporting.

All Federal Programs.

No questioned costs.

Comments: Situation still prevails.

Finding number three (3): (June 30, 2001)

Reportable condition over Cash Receipt.

Section 8 and Head Start

No questioned costs.

Comments: Situation still prevails.

Finding number four (4): (June 30, 2001)

Reportable condition over Expenditures for Goods and Services.

All Federal Funds.

No questioned costs.

Comments: Situation still prevails.

MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF PRIOR FINDINGS  
JUNE 30, 2002

Finding number five (5): (June 30, 2001)

Reportable condition over Payroll and Related Liabilities.

All Federal Programs

No questioned costs.

Comments: Situation still prevails.

Finding number six (6): (June 30, 2001)

Reportable condition over Activities Allowed or Unallowed.

SBGP

No questioned costs.

Comment: Situation corrected.

Finding number seven (7): (June 30, 2001)

Reportable condition over Cash Management.

SBGP

No questioned costs.

Comment: Situation still prevails.

Finding number eight (8): (June 30, 2001)

Reportable condition over Program Income.

SBGP

No questioned costs.

Comment: Situation corrected.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF PRIOR FINDINGS  
JUNE 30, 2002**

Finding number nine (9): (June 30, 2001)

Reportable condition over Standards for Financial Management Systems.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

Finding number ten (10): (June 30, 2001)

Reportable condition over Matching, Level of Effort, Earmarking.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

Finding number eleven (11): (June 30, 2001)

Reportable condition over Administrative costs limits.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

Finding number twelve (12): (June 30, 2001)

Reportable condition over Enrollment Level.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

**MUNICIPALITY OF SANTA ISABEL, PUERTO RICO  
SCHEDULED OF PRIOR FINDINGS  
JUNE 30, 2002**

Finding number thirteen (13): (June 30, 2001)

Reportable condition over Procurement and Suspension and Debarment-Formal bids.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

Finding number fourteen (14): (June 30, 2001)

Reportable condition over Procurement and Suspension and Debarment-Contract provisions.

Head Start

No questioned costs.

Comment: On letter dated July 5, 2002 Department of Health and Human Services determined that finding was corrected.

Finding number fifteen (15): (June 30, 2001)

Reportable condition over Equipment and Real Property Management.

SBGP

No questioned costs.

Comment: Situation still prevails.

**III. Corrective Action taken is significantly different from corrective action previously reported:**

None.

**IV Audit Findings no longer valid.**

None.