

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE TOA ALTA

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 TOA ALTA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA ALTA

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA ALTA

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

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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 Toa Alta
Toa Alta, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Toa Alta**, 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 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.

As described in **Note 8**, the Municipality has not maintained a complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001.

As disclosed in **Note 13**, at June 30, 2001, the Municipality had not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things that the Municipality estimates and recognizes the Municipal Solid Waste Landfill Closure and Post closure Care Costs.

INDEPENDENT AUDITORS' REPORT (Continued)

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 of the Municipality and the balances and transactions disclosed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Toa Alta** 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001 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 Toa Alta**, 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
December 4, 2001

Stamp No.1785266 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
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 and cash equivalents	\$377,329	\$1,165,482		\$2,111,428			\$3,654,239
Cash with fiscal agent	2,471	28,570	\$2,531,940	1,932,737			4,495,718
Intergovernmental receivables		295,628					295,628
Landfill users receivable	310,280						310,280
Federal grants receivable		41,395		643,550			684,945
Due from other funds	1,352,667	133,054		1,004,852			2,490,573
Other receivables	23,920						23,920
Property and equipment					\$18,774,729		18,774,729
Amount available in Debt Service Fund						2,531,940	2,531,940
Amount to be provided for retirement of general long-term debt						8,595,159	8,595,159
Total assets and other debits	\$2,066,667	\$1,664,129	\$2,531,940	\$5,692,567	\$18,774,729	\$11,127,099	\$41,857,131
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable and accrued liabilities	\$912,104	\$14,730		\$324,173			\$1,251,007
Due to other funds	791,561	645,837		1,053,175			2,490,573
Due to other governmental entities	183,514					\$2,252,807	2,436,321
Deferred municipal license tax revenues	637,994						637,994
Deferred federal grant revenues		244,729		75,094			319,823
General obligation bonds						6,845,000	6,845,000
Notes payable						1,398,570	1,398,570
Claims and judgments						45,370	45,370
Accrued compensated absences						585,352	585,352
Total liabilities	2,525,173	905,296		1,452,442		11,127,099	16,010,010
Fund equity:							
Investment in general fixed assets					\$18,774,729		18,774,729
Fund balances:							
Reserved for encumbrances	891,374						891,374
Reserved for debt service			\$2,531,940				2,531,940
Unreserved:							
Designated for specific fund purposes		758,833		4,240,125			4,998,958
Undesignated	(1,349,880)						(1,349,880)
Total fund equity (deficit)	(458,506)	758,833	2,531,940	4,240,125	18,774,729		25,847,121
Total liabilities and fund equity	\$2,066,667	\$1,664,129	\$2,531,940	\$5,692,567	\$18,774,729	\$11,127,099	\$41,857,131

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
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	Capital Projects	
REVENUES					
Property taxes	\$2,218,585		\$1,090,675		\$3,309,260
Municipal license taxes	971,948				971,948
Licenses and permits	1,963,989				1,963,989
Intergovernmental	4,367,899	\$1,033,586			5,401,485
Users' fees on landfill facilities	1,387,634				1,387,634
Rent of property	130,443				130,443
Fines and penalties	1,160				1,160
Interest	252,550				252,550
Federal grants		1,410,135		\$4,248,212	5,658,347
Miscellaneous	392,872			1,659,591	2,052,463
Total revenues	<u>11,687,080</u>	<u>2,443,721</u>	<u>1,090,675</u>	<u>5,907,803</u>	<u>21,129,279</u>
EXPENDITURES					
Current:					
Mayor and Municipal Assembly	1,029,828				1,029,828
General government	3,809,168	165,253		335,828	4,310,249
Public safety	881,980	483,708			1,365,688
Public works	3,330,204	638,512		135,576	4,104,292
Public health and sanitation	436,397				436,397
Welfare	253,110	841,209			1,094,319
Economic development		562,390			562,390
Recreation	289,935				289,935
Debt service:					
Principal retirement	41,132		464,000		505,132
Interest	35,191		336,444		371,635
Capital outlays	53,683			6,758,356	6,812,039
Total expenditures	<u>10,160,628</u>	<u>2,691,072</u>	<u>800,444</u>	<u>7,229,760</u>	<u>20,881,904</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,526,452</u>	<u>(247,351)</u>	<u>290,231</u>	<u>(1,321,957)</u>	<u>247,375</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers from/to other funds	(1,009,844)			1,009,844	
Proceeds from bond issuance	810,000			1,735,000	2,545,000
Total other financing sources (uses)	<u>(199,844)</u>			<u>2,744,844</u>	<u>2,545,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>1,326,608</u>	<u>(247,351)</u>	<u>290,231</u>	<u>1,422,887</u>	<u>2,792,375</u>
Fund balances (deficit), beginning as restated	<u>(1,785,114)</u>	<u>1,006,184</u>	<u>2,241,709</u>	<u>2,817,238</u>	<u>4,280,017</u>
Fund balances (deficit), ending	<u>(\$458,506)</u>	<u>\$758,833</u>	<u>\$2,531,940</u>	<u>\$4,240,125</u>	<u>\$7,072,392</u>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA
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		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes	\$2,176,405	\$2,176,405	\$ -	\$800,997	\$1,090,675	\$289,678
Municipal license taxes	1,073,212	971,948	(101,264)			
Licenses and permits	1,963,959	1,963,989	30			
Intergovernmental	4,240,875	4,240,875	-			
Users' fees on landfill facilities	1,387,634	1,387,634	-			
Rent of property	103,570	113,381	9,811			
Fines and penalties	875	1,160	285			
Interest	226,305	252,550	26,245			
Miscellaneous	7,342	12,042	4,700			
Total revenues	<u>11,180,177</u>	<u>11,119,984</u>	<u>(60,193)</u>	<u>800,997</u>	<u>1,090,675</u>	<u>289,678</u>
EXPENDITURES AND ENCUMBRANCES:						
Current:						
Mayor and Municipal Assembly	1,126,534	1,122,877	3,657			
General government	4,361,282	4,187,360	173,922			
Public safety	923,417	912,860	10,557			
Public works	2,841,751	2,877,761	(36,010)			
Public health and sanitation	436,397	461,179	(24,782)			
Welfare	260,053	257,290	2,763			
Recreation	315,530	289,935	25,595			
Capital outlays	79,046	57,863	21,183			
Debt service:						
Principal retirement	41,132	41,132		384,479	464,000	(79,521)
Interest	35,191	35,191		416,518	336,444	80,074
Total expenditures and encumbrances	<u>10,420,333</u>	<u>10,243,448</u>	<u>176,885</u>	<u>800,997</u>	<u>800,444</u>	<u>553</u>
Excess (deficiency) of revenues over (under) expenditures and encumbrances	759,844	876,536	116,692		290,231	290,231
OTHER FINANCING USES:						
Proceeds from bond issuance		810,000	810,000			
Operating transfer to other fund	(759,844)	(1,009,844)	(250,000)			
Total other financing sources (uses)		<u>(199,844)</u>	<u>560,000</u>			
Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing sources		676,692	<u>676,692</u>			
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:						
Current year encumbrances treated as current year expenditures for budgetary basis		716,476				
Prior year encumbrances recorded as current year expenditures for GAAP basis		(265,036)				
GAAP adjustments to expenditures		(368,620)				
GAAP adjustments to revenues		567,096				
Fund balances (deficit), beginning as restated		<u>(1,785,114)</u>		<u>2,241,709</u>		
Fund balances (deficit), ending		<u><u>(\$458,506)</u></u>		<u><u>\$2,531,940</u></u>		

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Toa Alta** (the Municipality) was established in 1804. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen member 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 TOA ALTA**

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 TOA ALTA**

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 TOA ALTA**

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 TOA ALTA**

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 an 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. As indicated in Note 8, the information to account for these general fixed assets is not available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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

H. Cash and cash equivalents:

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 and investment 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 and Cash Equivalents". 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 and Cash Equivalents include investments with original maturities of ninety days or less.

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 and unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements.

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 TOA ALTA**

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 TOA ALTA**

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 judgements:

The estimated amount of the liability for claims and judgements, 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:

Retirement System Administration	\$	57,193
Puerto Rico Telephone Company		51,761
Puerto Rico Aqueduct and Sewer Authority		68,878
General Services Administration		4,118
Department of Treasury		1,564
Total	\$	183,514

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:

Department of Treasury (Income taxes)	\$	188,580
Department of Treasury (Property tax advances)		32,302
Puerto Rico Electric Power Authority		411,508
Municipal Revenue Collection Center		1,391,028
Solid Waste Authority		229,389
Total	\$	2,252,807

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

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 8.08% for real property and 6.08% 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 1.25% 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.

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. At the date of the release of these financial statements, the CRIM issued the preliminary liquidation noting that the advances were in excess of collections by \$ 149,311. Such amount, added to property tax advance debt balance from prior years, was included as a due to other governmental entities in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2001.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 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	0.50%

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.

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. CASH AND CASH EQUIVALENTS:

Cash in bank accounts	\$ 1,654,239
Certificates of deposit (90 days or less)	<u>2,000,000</u>
Total cash and cash equivalents	<u>\$ 3,654,239</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

7. 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.

8. GENERAL FIXED ASSETS:

The Municipality has not maintained complete and adequate records of its general fixed assets. Also, there are no written procedures to ascertain that all capital expenditures are properly recorded in the property ledger. In addition, the Municipality has not taken a physical inventory of its property and equipment. As a result, no adequate records exist to classify the general fixed assets account group between land, building and equipment.

The following is a summary of changes in general fixed assets for the fiscal year ended June 30, 2001:

Balance at July 1, 2000	\$ 9,767,483
Additions	617,269
Retirements	-
Adjustments	<u>8,389,977</u>
Balance at June 30,2001	<u>\$ 18,774,729</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

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

Balance at July 1, 2000	\$ 4,535,000
Debt issued	2,545,000
Principal retirements	<u>(235,000)</u>
Balance at June 30, 2001	<u>\$ 6,845,000</u>

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

<u>Type of bonds</u>	<u>Maturity date</u>	<u>Original Amount</u>	<u>Range of Interest Rates</u>	<u>Balance at June 30, 2001</u>
1992 Series	7-1-07	\$ 900,000	4.16% - 6.41%	\$ 560,000
1994 Series	7-1-19	330,000	6.11% - 8.21%	300,000
1995 Series	7-1-20	485,000	4.70% - 6.88%	450,000
1995 Series	7-1-20	205,000	4.70% - 6.63%	180,000
1995 Series	7-1-11	1,270,000	4.70% - 6.63%	1,060,000
1997 Series	7-1-21	1,230,000	4.87% - 6.75%	1,155,000
1997 Series	7-1-22	625,000	0.00% - 6.56%	595,000
2000 Series	7-1-25	505,000	5.88% - 8.00%	505,000
2000 Series	7-1-13	1,230,000	5.88% - 8.00%	1,230,000
2000 Series	7-1-10	810,000	5.88% - 8.00%	<u>810,000</u>
Total general obligation bonds				<u>\$ 6,845,000</u>

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

<u>Year ended June 30</u>	<u>Total</u>
2002	\$ 295,000
2003	320,000
2004	350,000
2005	380,000
2006	410,000
Thereafter	<u>5,090,000</u>
Total	<u>\$ 6,845,000</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 TOA ALTA**

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	\$1,668,702
Debt issued	-
Payments during the current year	<u>(270,132)</u>
Balance at June 30, 2001	<u>\$1,398,570</u>

Notes payable at June 30, 2001 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2001
1985 Series	7-1-20	\$ 200,000	4.70% - 6.63%	\$ 92,000
1998 Series	7-1-02	445,000	4.87% - 6.31%	240,000
1998 Series	1-1-05	287,550	4.75%	202,000
1999 Series	7-1-05	655,000	4.87% - 6.00%	500,000
Special Lottery Fund	7-1-07	62,623	8.00%	19,570
Special Lottery Fund	7-1-16	400,000	5.00% - 8.00%	<u>345,000</u>
 Total notes payable				 <u>\$1,398,570</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	\$ 288,131
2003	305,131
2004	192,131
2005	206,131
2006	133,131
Thereafter	<u>273,915</u>
 Total	 <u>\$1,398,570</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

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:

Years of Service	Participant Age	Pension Benefits
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 TOA ALTA**

**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:

Years of Service	Participant Age	Pension Benefits
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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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 **\$ 266,000**. 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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

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 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. LANDFILL OBLIGATIONS:

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. At June 30, 2001, the Municipality has not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated obligation for landfill closure and post closure costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

14. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

FEMA designated the Municipality as a "high-risk" sub-grantee. Such decision was based on the conviction of the ex-mayor. FEMA will remove the "high-risk" designation within sixty (60) days after corrective action is completed. As of release of this Single Audit Report, the Municipality has been taken corrective actions in four of five requirements of the Agency. The missing requirement will be implemented during the next months.

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2001, these programs are still subject to financial and compliance audits by the granting agencies and the resolution 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, although the Municipality expects such amounts, if any, not to be material.

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 \$ 45,370 in the general long-term debt account group for anticipated unfavorable judgments. The amount presented in the general long-term debt group of account 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.

In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

15. 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 (Deficit) section of those Governmental Funds, as follows:

Description	General	Special Revenue	Capital Projects
Beginning Fund Balances (Deficit) at July 1, 2000	(\$1,887,426)	(\$ 500,865)	\$1,816,446
Reclassification of Puerto Rico Electric Power Authority Debt to the General Long-term Debt Account Group in accordance with payment plan	411,508		
Reclassification of debt related to excess of advances against collection of Property Tax to the General Long-term Debt Account Group in accordance with payment plan	1,241,717		
Reclassification of cash with fiscal agent as per the Ordinance Number 18 issued by the Municipal Assembly in the fiscal year 2000-01	(27,508)	27,508	
Accounting errors in beginning cash balance	(1,523,405)		
Adjustments to beginning fund balances (deficit) of the Special Revenue and Capital Projects Funds due to accounting errors in several federal and state programs		1,479,541	1,000,792
Beginning Fund Balances (Deficit) at July 1, 2000, as restated	<u>(\$1,785,114)</u>	<u>\$1,006,184</u>	<u>\$ 2,817,238</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Program:			
Rural Housing Preservation Grants	10.433	Not Available	<u>20,643</u>
Total U.S. Department of Agriculture			<u>20,643</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants- Entitlement Grants	14.218	B-00-MC-72-0017 B-99-MC-72-0017 B-98-MC-72-0017	1,674,439 1,792,000 <u>426,279</u>
Total Community Development Block Grants- Entitlement Grants			<u>3,892,718</u>
Disaster Recovery Initiative Program	N/A	Not Available	346,250
Urban Development Action Grants	14.221	Not Available	9,633
Section 8 – Cluster:			
Section 8 Rental Voucher Program	14.855	RQ-053-VO	743,165
Section 8 Rental Certificate Program	14.857	RQ-053-CE	<u>31,244</u>
Total Section 8 – Cluster of Programs			<u>774,409</u>
Total U.S. Department of Housing and Urban Development			<u>5,023,010</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

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>
U.S DEPARTMENT OF JUSTICE:			
Direct Program:			
Universal Hiring Programs	16.710	98-UM-WX-0331	401,708
Pass-through the Commonwealth of P.R. Department of Justice			
Local Law Enforcement Block Grants Program	16.592		<u>25,000</u>
Total U.S. Department of Justice			<u>426,708</u>
U.S FEDERAL EMERGENCY MANAGEMENT AGENCY:			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544		<u>9,329</u>
Total U.S. Federal Emergency Management Agency:			<u>9,329</u>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (Elderly Affairs Office):			
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	Not-Available	121,743
Total U.S. Department of Health and Human Services			<u>121,743</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,601,433</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

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 Toa Alta** 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 and Capital Projects Funds 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>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$1,353,136	\$4,248,297	\$5,601,433
Non federal programs Expenditures	<u>1,337,936</u>	<u>2,981,463</u>	<u>4,319,399</u>
Total expenditures in the general purpose financial statements	<u>\$2,691,072</u>	<u>\$7,229,760</u>	<u>\$9,920,832</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- 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 Toa Alta
Toa Alta, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Toa Alta** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 4, 2001, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. 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 Toa Alta'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 Toa Alta'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 Toa Alta'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 **01-04**.

**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 items **01-01** and **01-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Toa Alta** in a separate letter dated December 4, 2001.

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
December 4, 2001

Stamp No.1785267 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

Member of:

- 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 Toa Alta
Toa Alta, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Toa Alta** 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 Toa Alta'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 Toa Alta's** management. Our responsibility is to express an opinion on the **Municipality of Toa Alta's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in 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 Toa Alta'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 Toa Alta's** compliance with those requirements.

In our opinion, the **Municipality of Toa Alta** 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, **01-05** through **01-17**.

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)

Internal Control Over Compliance

The management of the **Municipality of Toa Alta** 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 Toa Alta'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 Toa Alta'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 **01-05, 01-06** and **01-08** through **01-17**.

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 item **01-07** to be a material weakness. 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 Toa Alta** in a separate letter dated December 4, 2001.



**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)**

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
December 4, 2001

Stamp No.1785268 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

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**

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
14.218	Community Development Block Grant - Entitlement Grants
14.855-.57	Section 8 - Cluster of Programs
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes _____ No <u>X</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-01**

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 contain 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 TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference	01-02
Requirement	Equipment and real property management
Statement of Condition	During our examination of the Municipality's property records we noted that the procedures followed to record and account for equipment and real estate property are inadequate in order to assure that all assets are properly recorded and accounted for. The property registers are not reliable since the information contained is not updated or completed.
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 Municipality should maintain updated property accounting records.
Cause of Condition	There is no internal control procedure implemented in order to assure that property register includes all equipment and real estate inventory.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding property transactions.
Recommendation	The Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real property and equipment as well as Construction in progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information. The person in charge of the Municipal Property should realize an annual physical inventory of equipment and real property in order to actualize subsidiary ledger and assure that the property that exist is duly recorded in subsidiary ledger. The person in charge of Municipal Property should maintain daily communication with the Purchase Department of the Municipality and with the Federal Programs employee in charge of the property and equipment in order to assure that all property and equipment acquired during the year is properly recorded in the subsidiary ledger.
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 TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-03**

Requirement **Cash Receipts and Municipal License Taxes**

Statement of Condition We performed a cash receipt test and examined a sample of sixty (60) collections and fifteen (15) municipal license taxes. The following summarize the deficiencies found.

- a) The Municipality certified one (1) of the Sales Volume Declaration without the Audited Financial Statement submitted by the taxpayer.
- b) The Municipality denied one renewal to a taxpayer due to a previous debt, but the file had not the evidence of the taxpayer's debt.
- c) The Municipality does not complete the Model 9 or Official Collector Report for any collection.
- d) The deposit slip of one collection was not available for our examination.

Criteria The Section Four (4) of the Chapter three (3) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes that the Official Collector should realized a daily revision of amount collected and amounts debited in bank by governmental agencies to assure that the revenues has been duly accounted and processed in the period of collection.

The Chapter (9) of the Revised Regulations on Basic Standards for the Municipalities Puerto Rico states that the Municipality should maintain adequately documented taxpayer files including evidence of audited financial statement in the case of taxpayers with a volume of business in excess of one million \$1,000,000, Municipal License Tax Certificate, etc.

Cause of Condition There is no adequate internal control procedures to assure that Taxpayer files are properly documented and daily collections are duly accounted.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-03 (Continued)**

Requirement **Cash Receipts and Municipal License Taxes (continued)**

Effect of Condition The Municipality is not complying with regulations stated in The Section Four (4) of the Chapter three (3) and Chapter 9 of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

Recommendation Municipality should implement the following procedures in order to avoid these situations in the future:

- a. Assign an employee to review that all Municipal License Tax taxpayers who requested a time extension in order to ascertain that they submitted the audited financial statement as required by law. In case of noncompliance with the time extension the Municipality should proceed to eliminate the 5% discount taken and apply interest and penalties.
- b. Establish procedures to assure that daily collections are duly accounted and exist a proper tracing between The Official Collector Report and Collectors Assistants receipts and deposit slips.

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 TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-04**

Requirement **Payroll and Related Liabilities – Payroll Preparation and Timekeeping**

Statement of Condition We performed a payroll test and examined a sample of 60 personnel files. The following summarize the deficiencies found:

- a) The accrued vacations report prepared by the Human Resources Department used to establish the accrued Compensated Absences in the Financial Statements as of June 30, 2001 did not include the accumulated vacation and sick leave balance of nine (9) employees.
- b) The Municipality did not discount from accumulated vacation and sick leave card one day of sick leave used by one employee.
- c) In two examined cards we found a mistake in the calculation of the accumulated vacation and sick leave balance.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico in the Chapter IV Section 18-(1) establishes that the Municipality will prepare the payroll based on the employee files.

Cause of Condition There is no internal control procedures implemented to assure the correctness of accumulative vacation and sick leave balances

Effect of Condition The Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave computation worksheet.

Recommendation We recommend that the Municipality should review that for all payrolls prepared, the Human Resources Department must discount from the accumulative vacation worksheet the vacation and sick leave days used by employees according to the time assistance card.

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 TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-05
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures we found the following exceptions: a) There is no audit trail to reconcile the funds received from the Federal Agency with the disbursements. b) Two of the examined deposits were not disbursed in a reasonable time from the date the funds were received. c) The average monthly cash balance was excessive according to Cash Management Program requirements.
Criteria	OMB Common Rule, Subpart C, Section 85.20 (b) (7), requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursements made by the grantee.
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	Municipality is not in compliance with OMB Common Rule, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend management to follow its monitoring procedures system in order to assure that requested funds were disbursed as required by the law.
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 TOA ALTA**

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 – Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Davis-Bacon Act
Statement of Condition	During our Davis-Bacon Act test, we noted that the Municipality did not apply adequately the monitoring system developed to assure contractors compliance with payment of prevailing wages rates to employees; contractor's and subcontractor's laborers interviews were not made periodically, and contractor weekly payrolls were not requested promptly during activity of construction project, to be reviewed by the Municipal Employee responsible for applying monitoring procedures.
Criteria	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
Cause of Condition	Municipality did not apply all monitoring system procedures developed by it to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	Municipality is not in compliance with Davis-Bacon Act as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603, and Subpart C, 44 CFR 13.36.
Recommendation	We recommend management to follow monitoring system procedures developed by it, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed weekly by responsible Municipal Employee, and interviewing contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any.
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 TOA ALTA**

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 – Entitlement Grants (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Equipment and Real Property Management
Statement of Condition	The Municipality did not register in the real property subsidiary ledger a land acquired with federal funds for the amount of \$450,000.
Criteria	Subpart C, 24 CFR, 85.32 (d) (1) establishes that property records must be maintained that include a description of the property, the source of property, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. Also, Subpart I, Section 570.489 (k) state procedures that the Municipality shall implement in order to comply with Federal Regulations.
Cause of Condition	There is no internal control procedures implemented to assure that property register includes real properties acquired or constructed with Federal funds and with all necessary information, as required by Subpart C, 24 CFR 85.32 (d) (1), and Subpart I, 24 CFR 570.489 (k).
Effect of Condition	Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1), and Subpart I, 24 CFR 570.489 (k).
Recommendation	We recommend to management to implement internal control procedures in order to assure that real properties within Municipality's control, acquired or constructed with Federal funds, are included in the property register.
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 TOA ALTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Federal Award Findings and Questioned Costs

Finding Reference	01-08
Program	Community Development Block Grant/ Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In our contract provisions test we observed that the Contracts did not include provisions for compliance with executive order 11246 Equal Employment Opportunity, provisions for compliance with sections 103 and 107 of the contracts work hours and Safety Standards Act, provision for compliance with the Clean Air Act and Water Act, provision for compliance with Energy Policy and Conservation Act, provision for compliance with the Copeland “Anti-kickback” and four (4) contracts did not include provisions for compliance with Davis Bacon Act.
Criteria	24 CFR, Subpart C, Section 85.36 (I) (1-13), states that sub grantee’s contract must contain provisions described in paragraph (I) of this section.
Cause of Condition	Federal Programs Department did not maintain appropriate procurement standard procedures in order to assure that contractor complies with some requirement.
Effect of Condition	The Municipality is not in compliance with 24 CFR, Subpart C, Section 85.36, (I) (1-13).
Recommendation	We recommend management to update a contract sample according with the federal 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 TOA ALTA**

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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test – Allowable Costs
Statement of Condition	During our verification of thirty-nine (39) participant files we noted that in ten (10) cases the Municipality did not paid the Housing Assistance Payment as per Family Report, Form HUD-50058 calculation.
Criteria	Code of Federal Regulations 24, Sections 5.617 and 982.516 requires the PHA to reexamine family income and composition at least once every twelve months and adjust the tenant rent and housing assistance payment as necessary.
Cause of Condition	The Federal Programs Department did not verify if the HAP payments are in accordance with the HUD 50058 Form, Family Report.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 5.617 and 982.516.
Recommendation	We recommend to implement monitoring procedures to assure that HAP payments are realized based on Family Report Computation.
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 TOA ALTA**

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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	We realized Cash Management Test and after our procedures we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the programs maintained an excessive average cash balance in books.
Criteria	OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
Cause of Condition	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
Effect of Condition	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
Recommendation	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.
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 TOA ALTA**

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 **Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development**

Requirement **Eligibility Test**

Statement of Condition We performed an eligibility test and examined a sample of thirty-nine (39) participant files. The following summarize the deficiencies found:

- a. Twenty-two (22) files did not include an application form completed by the PHA staff.
- b. Two (2) files did not include a release form to allow the PHA to obtain information from third parties.
- c. Two (2) files did not include a Federal-prescribed general release form for employment information.
- d. Three (3) files did not include a Privacy Act Notice.
- e. In thirty-one (31) files the Privacy Act Notice and the release forms for income certification did not indicate the date that was completed.
- f. Three (3) birth certificates and seven (7) social security copy card were not available for our examination.
- g. In five (5) cases there was not adequate evidence of family income.
- h. In eighteen (18) cases the members of the family with 18 years or older did not sign the Privacy Act Notice included in the participant's file.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

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 (Continued)
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Eligibility Test (continued)
Criteria	Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that as a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federally prescribed general release form for employment information and a Privacy Act Notice.
Cause of Condition	The Municipality does not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617.
Recommendation	We recommend the Program to establish the following procedures: a. Provide an application form to be completed by the participant and sign by all family members who are at least 18 years old. b. Provide a Federally prescribed general release form for employment information and a Privacy Act Notice to be sign by all members of the family who are at least 18 years old.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

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 (Continued)**

Program **Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development**

Requirement **Eligibility Test (continued)**

Recommendation (continued)

- c. Implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.

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 TOA ALTA**

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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Procurement and Suspension and Debarment
Statement of Condition	In two (2) professional service contracts the required quotations were not available for examination.
Criteria.	24 CFR, Subpart C, Section 85.36 (c) (1) states that all procurement transactions will be conducted in a manner providing full and open competition consistent with the Standards.
Cause of Condition	The Federal Programs Department did not maintain appropriate procurement standard procedures in order to assure that contractors comply with all requirements.
Effect of Condition	The Municipality is not in compliance with 24 CFR Subpart C, Section 85.36 (c) (1).
Recommendation	We recommend management to improve internal control procedures related to procurement 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 TOA ALTA**

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 **Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development**

Requirement **Reporting**

Statement of Condition During our reporting tests we noted the program did not prepare accurate closing reports. We noted following exceptions:

- a. The Voucher For Payment of Annual Contribution and Operation Statement for Voucher and Existing Programs were submitted lately to HUD. In addition, we noted that the report was not fully completed. The budget column was not completed, the amounts reported in the annual contribution account, voucher subsidy account and Housing Assistance Payment account did not match with the general ledger.
- b. For Existing Program the following reports were submitted lately to HUD:
 - Supporting Data For Annual Contribution Estimates.
 - Estimate Of Total Required Annual Contribution.
 - Requisition For Partial Payment Of Annual Contributions.

The Estimate Of Total Required Annual Contribution Report has difference between the account of Estimated Annual Contributions and the general ledger.

- c. The program did not perform the necessary adjustments to up date the accounting records as per the revised closing reports received from HUD.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF TOA ALTA**

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)
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Reporting (continued)
Criteria	OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1), requires that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. Also, Subpart C, 24 CFR 85.20 (b) (2), states that the grantee must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
Cause of Condition	The Municipality did not have adequate procedures in order to assure that all financial and programmatic reports are submitted on time. The Municipality did not establish effective internal control over the transactions recorded on its accounting records
Effect of Condition	The Municipality is not in compliance with OMB Common Rules, Subpart C, 24 CFR 85.20 (b)(1) and 85.20 (b) (2).
Recommendation	We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and prepare in accordance with the required accounting basis.
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 TOA ALTA**

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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Performance Reporting
Statement of Condition	We found that the program did not maintain evidence to support the answers of the SEMAP report. In addition, the program answered yes for the items 1(b), 5, 6 and 10, nevertheless the results of our test shows that the program did not comply with those requirements.
Criteria	Code of Federal Regulations 24, CFR, Section 985 states that under SEMAP, PHAs submit an annual certification, Form HUD-52648 (OMB No. 2577-0215), to HUD concerning their compliance with program requirements under 14 indicators of performance. Finally, HUD will realize on site visits and verify the independent auditors annual audit reports to assure the compliance with this requirement.
Cause of Condition	The program did not maintain adequate controls to assure that it maintain sufficient evidence to support the compliance with the answers detailed in the SEMAP Report submitted to HUD.
Effect of Condition	The Municipality is not compliance with Code of Federal Regulations 24, Section 985.3.
Recommendation	We recommend to the Municipality to establish adequate internal control in order to assure that the program complied with federal regulations and maintain proper records to support SEMAP Report answers.
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 TOA ALTA**

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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Reporting
Statement of Condition	In our eligibility test we found that sixteen (16) Family Reports (HUD 50058), from HUD computer system were not available for our examination.
Criteria.	Code of Federal Regulations 24, Part 908 requires to the PHA to submit HUD-50058, Family Report electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.
Cause of Condition	The program does not maintain adequate controls to assure the submitting of HUD-50058, Family Report as required by Federal Regulation.
Effect of Condition	The Municipality is in not compliance with Code of Federal Regulations 24, Part 908.
Recommendation	We recommend to the Municipality implement internal control procedures to assure correctness and completeness in the filling of HUD-50058, Family Report and the submitting of this report to HUD.
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.

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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	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test – Selection from the Section 8 Waiting List
Statement of Condition	During our waiting list test we found the following: a) In eleven (11) cases we could not determine if the participants were selected from the top of the waiting list. b) In seven (7) cases the participant was not included in the waiting list.
Criteria	Code of Federal Regulations 24, Sections 5.410, 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
Cause of Condition	The program did not maintain adequate internal control procedures to assure that participants are selected from the top of the waiting list.
Effect of Condition	The Municipality is not in compliance with 24 CFR sections 5.410, 982.54 (d) and 982.201 through 982.207.
Recommendation	The program should realize the procedures established in the action plan in order to actualize the waiting list and maintains a proper tracing of the participant's selection, in order to assure the selection from the top of the waiting list.
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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-17**

Program **Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development**

Requirement **Special Test – Housing Quality Standards Inspections and Enforcement**

Statement of Condition **During our verification of thirty-nine (39) participant files we noted the following deficiencies:**

- a. One (1) file of a unit with failed HQS inspection, and the correction period had ended, did not include a unit inspection report or evidence of other verification documenting that any PHA required repairs were completed and the Program did not stop the Housing Assistance Payment to the owner.
- b. In one (1) file the Program realized an inconclusive inspection and there is no evidence on file that owner corrected the failures.
- c. We did not find evidence of a quality control re-inspection in the thirty-nine (39) examined tenant's files.

Criteria **Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) states that the PHA must inspect the unit leased to a family at least annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. Also the PHA must prepare a unit inspection report.**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	01-17 (Continued)
Program	Section 8 Rental Voucher Program (CFDA 14.855) and Rental Certificate Program (CFDA 14.857), U.S. Department of Housing and Urban Development
Requirement	Special Test – Housing Quality Standards Inspections and Enforcement (continued)
Criteria (continued)	24 CFR, Sections 982.158(d) and 982.404 establishes that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours of the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract.
Cause of Condition	Management does not have adequate internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented in participant files. Also, the Municipality does not maintain adequate internal control procedures to assure documented enforcement of the HQS.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section 982.158 (d) and 982.405 (b) and 982.404.
Recommendation	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are realized and properly documented. Also, the Municipality should strengthen their procedures to assure the enforcement with HQS by the owners.
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
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- (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)
00-14	All Programs	<p><u>Accounting System and Federal Financial Report</u></p> <p>Partial corrective action has been taken. The Municipality contracted a consultants group in order to establish the adjusted balances of all municipal funds as of 6/30/00, for the preparation of the Budgetary Liquidation for the fiscal year 2000-2001 and for the development of a fiscal administrative system for the management of the federal programs. In the near future, the Municipality will begin to update the manual accounting records with the OCAM system or another software that complies with the GASB 34 requirements.</p>
00-15	All Programs	<p><u>Cash and Bank Accounts</u></p> <p>Full corrective action has been taken.</p>
00-16	All Programs	<p><u>Inadequate Property Records</u></p> <p>No corrective action has been taken.</p>
00-17	14.857	<p><u>Federal Cash Management System</u></p> <p>No corrective action has been taken.</p>
00-18	14.857	<p><u>Balance Sheet for Section 8</u></p> <p>Audit finding is no longer valid because HUD does not require this form in the present.</p>
00-19	14.855	<p><u>Subsidy Computation</u></p> <p>No corrective action has been taken.</p>
00-20	14.855	<p><u>Federal Cash Management System</u></p> <p>No corrective action has been taken.</p>

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (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)
00-21	14.855	<u>Inadequate Documentation of Participant Files</u> No corrective action has been taken.
00-22 00-27	14.218	<u>Federal Cash Management System</u> No corrective action has been taken.
00-23 00-24 00-25	14.218	<u>Davis Bacon Act</u> No corrective action has been taken.
00-26	14.218	<u>Citizen Participation Plan</u> Full corrective action has been taken.
00-28	14.218	<u>Inadequate Documentation of Participant Files</u> No corrective action has been taken.
00-29	14.218	<u>Federal Cash Transaction Report</u> Full corrective action has been taken.