

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

**MUNICIPIO DE TOA ALTA**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

OFIC. DEL COMISIONADO  
DE AUDITORIA MUNICIPAL

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RECIBIDO  
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF TOA ALTA**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2002**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF TOA ALTA

YEAR ENDED JUNE 30, 2002

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF TOA ALTA**

**YEAR ENDED JUNE 30, 2002**

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
the Municipal Legislature  
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, 2002, 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 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, 2002.

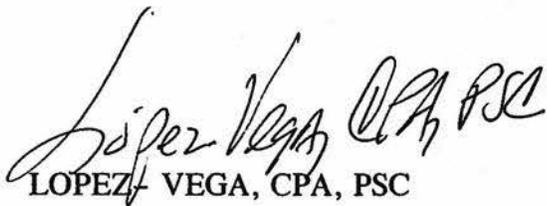
As disclosed in **Note 13**, at June 30, 2002, the Municipality had not performed the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure 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, 2002, 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 November 27, 2002 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the **Municipality of 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  
November 27, 2002

Stamp No. 1854013 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, 2002**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents	\$54,689	\$883,690		\$1,095,111			\$2,033,490
Cash with fiscal agent	2,471	162,361	\$2,801,856	2,760,810			5,727,498
Intergovernmental receivables	221,104	168,382					389,486
Municipal license taxes receivable	87,574						87,574
Federal grants receivable		396,156		178,394			574,550
Due from other funds	974,342	42,411		1,140,997			2,157,750
Other receivables	1,430						1,430
Property and equipment					\$19,653,545		19,653,545
Amount available in Debt Service Fund						2,801,856	2,801,856
Amount to be provided for retirement of general long-term debt						10,412,947	10,412,947
<b>Total assets and other debits</b>	<b>\$1,341,610</b>	<b>\$1,653,000</b>	<b>\$2,801,856</b>	<b>\$5,175,312</b>	<b>\$19,653,545</b>	<b>\$13,214,803</b>	<b>\$43,840,126</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$1,626,154	\$21,478		\$304,327			\$1,951,959
Due to other funds	1,183,408	924,563		49,779			2,157,750
Due to other governmental entities	127,585					\$1,962,218	2,089,803
Deferred municipal license tax revenues	724,070						724,070
Deferred federal grant revenues		411,685		185,280			596,965
General obligation bonds						8,655,000	8,655,000
Notes payable						1,607,939	1,607,939
Claims and judgments						251,755	251,755
Accrued compensated absences						737,891	737,891
<b>Total liabilities</b>	<b>3,661,217</b>	<b>1,357,726</b>		<b>539,386</b>		<b>13,214,803</b>	<b>18,773,132</b>
<b>Fund equity:</b>							
Investment in general fixed assets					\$19,653,545		19,653,545
<b>Fund balances:</b>							
Reserved for encumbrances	13,598						13,598
Reserved for debt service			\$2,801,856				2,801,856
<b>Unreserved:</b>							
Designated for specific fund purposes		295,274		4,635,926			4,931,200
Undesignated	(2,333,205)						(2,333,205)
<b>Total fund equity (deficit)</b>	<b>(2,319,607)</b>	<b>295,274</b>	<b>2,801,856</b>	<b>4,635,926</b>	<b>19,653,545</b>		<b>25,066,994</b>
<b>Total liabilities and fund equity</b>	<b>\$1,341,610</b>	<b>\$1,653,000</b>	<b>\$2,801,856</b>	<b>\$5,175,312</b>	<b>\$19,653,545</b>	<b>\$13,214,803</b>	<b>\$43,840,126</b>

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, 2002**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$2,589,398		\$1,259,198		\$3,848,596
Municipal license taxes	1,374,728				1,374,728
Licenses and permits	1,297,915				1,297,915
Intergovernmental	4,531,730	\$565,966		\$800,301	5,897,997
Rent of property	26,077				26,077
Fines and penalties	1,345				1,345
Interest	201,218				201,218
Users fees on landfill facilities	428,118				428,118
Federal grants		1,378,183		\$847,730	2,225,913
Miscellaneous	350,240				350,240
<b>Total revenues</b>	<u>10,800,769</u>	<u>1,944,149</u>	<u>1,259,198</u>	<u>1,648,031</u>	<u>15,652,147</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	999,105				999,105
General government	4,623,563	561,650		189,246	5,374,459
Public safety	752,410	49,145			801,555
Public works	4,124,101	1,151,319		2,349,889	7,625,289
Public health and sanitation	605,132				605,132
Welfare	246,838	1,177,266			1,424,104
Economic development	61,468				61,468
Human services	106,790				106,790
Recreation	896,204				896,204
<b>Debt service:</b>					
Principal retirement	48,631		542,000		590,631
Interest	24,482		447,282		471,764
<b>Capital outlays</b>	223,706			556,649	780,355
<b>Total expenditures</b>	<u>12,712,430</u>	<u>2,939,380</u>	<u>989,282</u>	<u>3,095,764</u>	<u>19,736,856</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(1,911,661)</u>	<u>(995,231)</u>	<u>269,916</u>	<u>(1,447,733)</u>	<u>(4,084,709)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from bond issuance		505,000		2,105,000	2,610,000
<b>Total other financing sources (uses)</b>		<u>505,000</u>		<u>2,105,000</u>	<u>2,610,000</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)</b>	<u>(1,911,661)</u>	<u>(490,231)</u>	<u>269,916</u>	<u>657,267</u>	<u>(1,474,709)</u>
<b>Fund balances (deficit), beginning as restated</b>	<u>(407,946)</u>	<u>785,505</u>	<u>2,531,940</u>	<u>3,978,659</u>	<u>6,888,158</u>
<b>Fund balances (deficit), ending</b>	<u>(\$2,319,607)</u>	<u>\$295,274</u>	<u>\$2,801,856</u>	<u>\$4,635,926</u>	<u>\$5,413,449</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, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$2,368,294	\$2,368,294	\$ -	\$896,483	\$1,259,198	\$362,715
Municipal license taxes	1,100,000	1,374,728	274,728			
Licenses and permits	2,001,600	1,297,915	(703,685)			
Intergovernmental	4,657,268	4,531,730	-			
Users' fees on landfill facilities	1,600,000	428,118	-			
Rent of property	155,000	26,077	(128,923)			
Fines and penalties	5,000	1,345	(3,655)			
Interest	150,000	201,218	51,218			
Miscellaneous	23,000	350,240	327,240			
<b>Total revenues</b>	<b>12,060,162</b>	<b>10,579,665</b>	<b>(1,480,497)</b>	<b>896,483</b>	<b>1,259,198</b>	<b>362,715</b>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	967,693	999,105	(31,412)			
General government	4,556,288	4,623,563	(67,275)			
Public safety	736,733	752,410	(15,677)			
Public works	3,599,114	3,610,835	(11,721)			
Public health and sanitation	605,486	605,132	354			
Welfare	247,843	246,838	1,005			
Recreation	902,881	896,204	6,677			
Human services	109,610	106,790	2,820			
Economic development	68,389	61,468	6,921			
<b>Capital outlays</b>	<b>201,762</b>	<b>223,706</b>	<b>(21,944)</b>			
<b>Debt service:</b>						
Principal retirement	48,631	48,631	-	522,000	542,000	(20,000)
Interest	15,732	24,482	(8,750)	374,483	447,282	(72,799)
<b>Total expenditures and encumbrances</b>	<b>12,060,162</b>	<b>12,199,164</b>	<b>(130,252)</b>	<b>896,483</b>	<b>989,282</b>	<b>(92,799)</b>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>	<b>-</b>	<b>(1,619,499)</b>	<b>(1,610,749)</b>		<b>269,916</b>	<b>269,916</b>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Net change in encumbrances		(24,052)				
GAAP adjustments to expenditures		(489,214)				
GAAP adjustments to revenues		221,104				
<b>Fund balances (deficit), beginning as restated</b>		<b>(407,946)</b>			<b>2,531,940</b>	
<b>Fund balances (deficit), ending</b>		<b>(\$2,310,607)</b>			<b>\$2,801,856</b>	

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, 2002

**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, 2002

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, 2002**

**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, 2002**

**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, 2002**

**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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

**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, 2002 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, 2002

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, 2002.

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, 2002**

**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:

Puerto Rico Telephone Company	\$	86,667
Puerto Rico Aqueduct and Sewer Authority		19,081
General Services Administration		6,944
Department of Treasury		14,893
Total	\$	<u>127,585</u>

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, 2002. The following is the balance of these accounts:

Department of Treasury (Income taxes)	\$	93,780
Department of Treasury (Property tax advances)		28,659
Puerto Rico Electric Power Authority		386,672
Municipal Revenue Collection Center		1,241,717
Solid Waste Authority		211,390
Total	\$	<u>1,962,218</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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 8.58% for real property and 6.58% 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 1.75% 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. As of June 30, 2002, the CRIM owes the Municipality the second installment of the final liquidation by the amount of \$221,104. Such amount was included as intergovernmental receivables in the General Fund.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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	\$ 1,333,490
Certificates of deposit (90 days or less)	<u>700,000</u>
Total cash and cash equivalents	<u>\$2,033,490</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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.

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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, 2002:

Balance at July 1, 2001	\$ 18,774,729
Additions	878,816
Retirements	-
Balance at June 30,2002	<u>\$ 19,653,545</u>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**9. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 6,845,000
Debt issued	2,105,000
Principal retirements	<u>(295,000)</u>
Balance at June 30, 2002	<u>\$ 8,655,000</u>

General obligation bonds at June 30, 2002 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1992 Series	7-1-07	\$ 900,000	4.16% - 6.41%	\$ 500,000
1994 Series	7-1-19	330,000	6.11% - 8.21%	295,000
1995 Series	7-1-20	485,000	4.70% - 6.88%	440,000
1995 Series	7-1-20	205,000	4.70% - 6.63%	175,000
1995 Series	7-1-11	1,270,000	4.70% - 6.63%	995,000
1997 Series	7-1-21	1,230,000	4.87% - 6.75%	1,130,000
1997 Series	7-1-22	625,000	0.00% - 6.56%	585,000
2000 Series	7-1-25	505,000	5.88% - 8.00%	500,000
2000 Series	7-1-10	810,000	5.88% - 8.00%	755,000
2000 Series	7-1-13	1,230,000	5.88% - 8.00%	1,175,000
2001 Series	7-1-16	2,105,000	5.00% - 8.00%	<u>2,105,000</u>
Total general obligation bonds				<u>\$ 8,655,000</u>

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2002, are as follows:

Year ended June 30	Total
2003	395,000
2004	430,000
2005	470,000
2006	510,000
2007	550,000
Thereafter	<u>6,300,000</u>
Total	<u>\$ 8,655,000</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, 2002**

**10. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$1,398,570
Debt issued	505,000
Payments during the current year	(295,631)
Balance at June 30, 2002	\$1,607,939

Notes payable at June 30, 2002 is as follows:

<b>Description</b>	<b>Maturity Date</b>	<b>Original Amount</b>	<b>Range of Interest rates</b>	<b>Balance June 30, 2002</b>
1985 Series	7-1-20	\$ 200,000	4.70% - 6.63%	\$ 69,000
1998 Series	7-1-02	445,000	4.87% - 6.31%	125,000
1998 Series	1-1-05	287,550	4.75%	155,000
1999 Series	7-1-05	655,000	4.87% - 6.00%	415,000
Special Lottery Fund	7-1-07	62,623	8.00%	16,439
Special Lottery Fund	7-1-16	400,000	5.00% - 8.00%	322,500
2001 Series	7-1-06	505,000	5.00% - 8.00%	505,000
<b>Total notes payable</b>				<b>\$1,607,939</b>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2002, are as follows:

<b>Year ended June 30</b>	<b>Total</b>
2003	390,131
2004	287,131
2005	306,131
2006	243,131
2007	135,000
Thereafter	246,415
<b>Total</b>	<b>\$1,607,939</b>

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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:

<b>Years of Service</b>	<b>Participant Age</b>	<b>Pension Benefits</b>
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, 2002**

**11. RETIREMENT PLAN (CONTINUED)**

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

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

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

**Defined Contribution Plan**

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

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

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, 2002**

**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, 2002 recorded as pension expenditures was approximately \$ 300,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

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

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

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**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, 2002, 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, 2002**

**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, 2002, 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 \$ 251,755 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, 2002**

**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, 2001	(\$458,506)	\$ 758,833	\$4,240,125
Adjustments to beginning fund balances (deficit) of the General, Special Revenue and Capital Projects Funds to properly present the due to/from as of 6/30/01 and eliminate certain interfund loans of years prior to 6/30/00.	50,560	210,906	(261,466)
Adjustments to beginning fund balances (deficit) of the Special Revenue and Capital Projects Funds due to accounting errors in a federal program.		(184,234)	
Beginning Fund Balances (Deficit) at July 1, 2001, as restated	<u>(\$407,946)</u>	<u>\$785,505</u>	<u>\$ 3,978,659</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program:			
Rural Housing Preservation Grants	10.433	Not Available	51,570
<b>Total U.S. Department of Agriculture</b>			<b>51,570</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Community Development Block Grants- Entitlement Grants	14.218		795,297
Section 8 Housing Choice Vouchers :	14.871		1,085,486
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,880,783</b>
<b>U.S DEPARTMENT OF JUSTICE:</b>			
Direct Program:			
Universal Hiring Programs	16.710	98-UM-WX-0331	277,567
Pass-through the Commonwealth of P.R. Department of Justice			
Local Law Enforcement Block Grants Program	16.592		49,145
<b>Total U.S. Department of Justice</b>			<b>326,712</b>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

<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>
<b>U.S FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grants	83.544		<u>30,000</u>
<b>Total U.S. Federal Emergency Management Agency:</b>			<u><b>30,000</b></u>
<b>U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
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	136,769
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families:			
		.5753.57	
Child Care and Development Block Grant	93.575	5	Not Available
<b>Total U.S. Department of Health and Human Services</b>			<u><b>191,983</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 2,481,048</b></u>

The accompanying notes are an integral part of this schedule.

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

**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	\$1,655,751	\$825,297	\$2,481,048
Non federal programs Expenditures	<u>1,283,629</u>	<u>2,270,467</u>	<u>3,554,096</u>
Total expenditures in the general purpose financial statements	<u>\$2,939,380</u>	<u>\$3,095,764</u>	<u>\$6,035,144</u>



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor  
and the Municipal Legislature  
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, 2002, and have issued our report thereon dated November 27, 2002, 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 **02-01** through **02-07**.

**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 **02-02** and **02-07** 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 November 27, 2002.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
November 27, 2002

Stamp No. 1854014 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 Toa Alta  
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, 2002. 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.

As described in items **02-15, 02-17, 02-19, 02-22 and 02-23** in the accompanying schedule if findings and questioned costs, the **Municipality of Toa Alta** did not comply with requirements regarding to Allowable costs-Cost Principle, Eligibility of Individuals, Reporting, Selection from the Waiting List and Reasonable Rent Determination that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for Municipality of Toa Alta to comply with requirements applicable to the program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2002. 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 **02-08** through **02-14**, **02-16**, **02-18**, **02-20**, **02-21**, **02-24** and **02-25**.

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 **02-08** through **02-25**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **02-08** through **02-10** and **02-13** through **02-25** 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 March 28, 2003.



**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  
March 28, 2003

Stamp No. 1854015 of the Puerto Rico  
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was affixed to the record copy of this report.



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2002**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:	Qualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No
Reportable conditions identified not considered to be material weaknesses?	Yes	None reported
Noncompliance material to financial statements noted?	Yes	No

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No
Reportable conditions identified not considered to be material weaknesses?	Yes	None reported
Type of auditors’ report issued on compliance for major programs:	<b>Unqualified</b> except for qualified for Section 8 Housing choice Voucher. <b>CFDA No. 14.871</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant - Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
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Auditee qualified as low-risk auditee?	Yes	No
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II - Financial Statements Findings**

**Finding Reference**      **02-01**

**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's 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, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-02</b>
<b>Requirement</b>	<b>Equipment and real property management</b>
<b>Statement of Condition</b>	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.
<b>Criteria</b>	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.
<b>Cause of Condition</b>	There is no internal control procedures implemented in order to assure that property register includes all equipment and real estate inventory.
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control of the accountability regarding property transactions.
<b>Recommendation</b>	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.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section II – Financial Statements Findings**

**Finding Reference**      **02-03**

**Requirement**            **Cash Receipts and Municipal License Taxes**

**Statement of Condition** We performed a cash receipt test and examined a sample of twenty-three (23) transactions. The following summarize the exceptions noted:

- a) The Municipality certified one (1) Sales Volume Business Declaration without the taxpayer submitting the Audited Financial Statements.
- b) In one (1) instance there is a difference in the net sales between the Financial Statements and the Sales Volume of Business Declaration.

**Criteria**                    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.

**Effect of Condition**      The Municipality is not complying with regulations stated and Chapter 9 of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.

**Recommendation**        The Municipality should implement procedures in order to avoid these situations in the future and assign an employee to review that all Municipal License Tax files have the complete documentation.

**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, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-04</b>
<b>Requirement</b>	<b>Payroll and Related Liabilities – Payroll Preparation and Timekeeping</b>
<b>Statement of Condition</b>	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the deficiencies found:</p> <ul style="list-style-type: none"><li>a) In one (1) instance the accrued vacations and sick leave as of 6/30/02 as per the list prepared by the Human Resources Department did not agree with the compensated absences card.</li><li>b) In one (1) instance the Municipality did not discount from the accumulated vacation and sick leave card several hours of compensated absence used by the employee.</li><li>c) In one (1) instance the gross wage rate per payroll did not agree with the gross wage rate as per the employee's file</li><li>d) In one (1) instance the employee position per payroll did not agree with the employee file.</li></ul>
<b>Criteria</b>	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.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure the correctness of accumulative vacation and sick leave balances
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave computation worksheet.
<b>Recommendation</b>	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.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section II – Financial Statements Findings**

**Finding Reference**        **02-05**

**Requirement**            **Expenditures for Goods and Services and Account Payables –  
Purchasing and Receiving**

**Statement of Condition** During our examination of the Municipality's procedures related to the purchasing and receiving process we examined sixty (60) disbursement vouchers for the general and special revenue fund and we noted the following situations.

- a. In one (1) instance the invoice was not signed by the supplier.
- b. In two (2) instances the official payer did not sign the disbursement voucher.
- c. In two (2) disbursement vouchers there was no evidence that the Municipality requested at least three (3) quotations or realized formal bids for these purchases.
- d. In three (3) instances the cancelled checks were not available for our inspection.
- e. Two (2) disbursement vouchers or the supporting documents were not marked or cancelled as paid along the document.
- f. In one (1) instance the Purchase Order was not signed by the Finance Director.
- g. In two (2) instances the Disbursement Voucher was not signed by the Finance Director.
- h. In three (3) instances the requisition form was not approved.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-05 (continued)</b>
<b>Requirement</b>	<b>Expenditures for Goods and Services and Account Payables – Purchasing and Receiving</b>
<b>Criteria</b>	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter Four (IV) states that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.
<b>Effect of Condition</b>	The Municipality is not in compliance with Chapter Four (IV) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend that the Municipality should improve its internal control procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase off goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed that limits.
<b>Questioned Cost</b>	None
<b>Management Response</b>	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, 2002**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>02-06</b>
<b>Requirement</b>	<b>Procedures related to the Formal Bids or quotations for the purchase of goods or services</b>
<b>Statement of Condition</b>	During our examination of the Municipality's bidding process related to the purchasing procedures, we examined twenty (20) bids for the general and special revenue fund and we noted that in one instance an auction for several items was adjudge to the higher bidder in 169 of 240 items
<b>Criteria</b>	Chapter Eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish the procedures related to the formal bids or quotations for the purchase of goods or services.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control to assure that all the bids are adjudge to the lowest bidder.
<b>Effect of Condition</b>	The Municipality is not in compliance with Chapter Eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend that the Municipality should improve its procedures to assure that the bids are adjudge to the lowest bidder.
<b>Questioned Cost</b>	None
<b>Management Response</b>	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, 2002

Section II – Financial Statements Findings

<b>Finding Reference</b>	<b>02-07</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	The Municipality did not include in its general-purpose financial statements, an estimate of the obligation for landfill closure and post closure costs.
<b>Criteria</b>	<i>GASB Statements No. 18</i> requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the <i>GASB Statement No. 18</i> requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract the necessary professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the <i>GASB Statement No. 18</i> .
<b>Management Response</b>	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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-08</b>
<b>Program</b>	<b>Community Development Block Grant – Entitlement Grant (CFDA. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized Cash Management Test and after our procedures were performed 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 (2) of the examined deposits were not disbursed in a reasonable time from the date the funds were received.  c. The programs maintained an average cash balance per month of \$44,289.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR Section 85.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 24, Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-09</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Davis-Bacon Act</b>
<b>Statement of Condition</b>	During our Davis-Bacon Act test, we noted that the Municipality did not establish procedures to assure that contractors and subcontractors were properly notified of the Davis Bacon Act requirements. Also, the Municipality did not develop a monitoring system to assure contractors compliance with payment of prevailing wages rates to employees.
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
<b>Cause of Condition</b>	The Municipality did not develop monitoring system procedures and did not assign a Municipal employee to notify and test applicable contractors with respect to wages to be paid in accordance with Davis Bacon Act.
<b>Effect of Condition</b>	The Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603.
<b>Recommendation</b>	We recommend the Municipality to develop monitoring system procedures and assign a municipal employee to perform it, including notifying contractors and subcontractors about Davis Bacon Act during the procurement process, 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.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-10</b>
<b>Program</b>	<b>Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	<p>We realized the Equipment and Real Property Management test and we found the following exceptions:</p> <ul style="list-style-type: none"><li>a) The Property Subsidiary Ledger does not detail the source of the property and the percentage of Federal participation in the cost of the equipment.</li><li>b) The Municipality did not maintain a Real Property Subsidiary Ledger.</li></ul>
<b>Criteria</b>	<p>Subpart C, 24 CFR 85.32 (d) (1) requires that equipment records shall be accurate and include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. Subpart C, 24 CFR 85.31 establishes similar regulation for the preparation of the Real Property Subsidiary.</p>
<b>Cause of Condition</b>	<p>The Municipality property management procedures failed to include all the required information in the property records. 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 85.31 and 85.32 (d) (1).</p>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-10(continued)</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) and 85.31.
<b>Recommendation</b>	We recommended the Municipality to strengthen its internal control procedures in order to assure that the program maintains proper records of the equipment to comply with program requirements and regulations. Also, we recommend 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.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-11</b>
<b>Program</b>	<b>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</b>  <b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment</b>
<b>Statement of Condition</b>	In two (2) professional service contracts the required quotations were not available for examination.
<b>Criteria</b>	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.
<b>Cause of Condition</b>	The Federal Programs Department did not maintain appropriate internal control procedures in order to assure that there is a full and open competition for the acquisition of goods or services with federal funds.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR Subpart C, Section 85.36 (c) (1).
<b>Recommendation</b>	We recommend management to improve internal control procedures related to procurement requirements.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Mayor Federal Program Award Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-12</b>
<b>Program</b>	<b>Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	In our Reporting Test we observed the following exceptions:  a) We found differences between the Federal Cash Transaction Report (Standard Form 272) submitted to HUD for the quarter ended on June 30, 2002 and the Cash Register, specifically, in the items corresponding to cash on hand beginning period, gross disbursements and Interest income.
<b>Criteria</b>	OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permit proper tracing of funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.
<b>Cause of Condition</b>	The Municipality has not established adequate internal control procedures to assure the correctness of the reports.
<b>Effect of Condition</b>	The Municipality did not comply with 24 CFR Section 85.20 (b) (1).
<b>Recommendation</b>	We recommend that the Municipality establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the financial reports.
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-13</b>
<b>Program</b>	<b>Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test and Provisions- Housing Rehabilitation</b>
<b>Statement of Condition</b>	<p>During our Housing Rehabilitation test we noted the following exceptions:</p> <ul style="list-style-type: none"><li>a) In nineteen (19) files the Form DM-00-003 Pre-rehabilitation Inspection did not describe the deficiencies to be corrected.</li><li>b) One (1) file did not include evidence of pre-rehabilitation inspection.</li><li>c) In two (2) files the program personnel did not complete the application form (DM-00-002).</li><li>d) One (1) examined file did not include complete evidence of family composition.</li><li>e) Thirty five (35) files did not contain evidence of follow-up visits (Form DM-00-010) realized by the Program personnel in order to verify if the rehabilitation work was carried out in accordance with the specifications.</li><li>f) Thirty three (33) files did not contain evidence of the final inspection (Form DM-00-11) by program personnel to assure that the materials were used and if the rehabilitation work was completed.</li><li>g) In thirty three (33) files the Form DM-00-009 in which the participant certified the receipt of the materials was not completed by the program personnel.</li><li>h) Two (2) files did not include the certification of eligibility.</li></ul>

COMMONWEALTH OF PUERTO RICO  
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III – Mayor Federal Award Program Findings and Questioned Costs

**Finding Reference** 02- 13 (continued)

**Statement of Condition**

- i) Four (4) files did not include evidence of family income.
- j) In ten (10) files the program personnel used the wrong federal income limit to determine eligibility.
- k) One (1) file did not include complete evidence of follow-up visits; they only included the final inspection.
- l) Four (4) files did not include evidence of residence existence (deeds or utilities invoices).
- m) Four (4) files were not available for examination.

**Criteria**

24 CFR, Section 570.506, states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained.

**Cause of Condition**

The program has not established adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.

**Effect of Condition**

The Municipality is not in compliance with 24 CFR, Section 570.506.

**Recommendation**

We recommend the Program to establish the following procedures:

- a) Ascertain that the deficiencies to be corrected and approved amount are incorporated into the rehabilitation contract.
- b) Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with contract specifications.
- c) Assure that all participant files include all required documentation duly approved and certified.

**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, 2002**

**Section III – Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-14</b>
<b>Program</b>	<b>Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Allowable Activities</b>
<b>Statement of Condition</b>	<p>During our examination of twenty (20) housekeeping assistance project participant files we noted the following exceptions:</p> <ul style="list-style-type: none"><li>a) The program has not prepared a procedures manual to establish the official documentation to be requested to the participants and the procedure to follow in the eligibility determination.</li><li>b) In seventeen (17) instances the documentation related with the eligibility of the participant such as, application form, income evidence, expenses evidence and medical certification corresponded to prior years beginning with 1994 through 2000.</li><li>c) In the twenty (20) participant files examined no evidence was found about a written participant contract signed between the applicant and a Municipality's representative establishing the services plan to be offered by CDBG Program.</li><li>d) In the twenty (20) participant files examined no evidence was found related to the Services Coordinator visit to the applicant housing unit to verify location of it prior the housekeeping assistance approval.</li><li>e) In the twenty (20) participant files examined no evidence was found about a written notification of housekeeping assistance approval.</li></ul>

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Mayor Federal Award Program Findings and Questioned Costs**

**Finding Reference      02-14 (Continued)**

**Statement of Condition**

f) Respect to the visits to be performed by the Services Coordinator to the participant housing to assure the quality of the services we observed the following:

- In seven (7) instances no evidence was found about the visits performed by the Service Coordinator to the participant housing.
- In five (5) instances the Services Coordinator performed one visit to the participant housing.
- In eight (8) instances the Services Coordinator performed two to three visits per year.
- The document in which the Services Coordinator describe the visit to the participant housing and the assessment of the services was not signed by the participant neither the housekeeper, only was signed by the Services coordinator.

**Criteria**

24 CFR, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Annual Action Plan 2001-2002 establishes that activity consisting in the provision of housekeeping services will benefit very low, low- and moderate income persons including the elderly, handicapped and persons with HIV/AIDS and that the Municipality's Office of Federal Programs will be responsible for the coordination and monitoring of this activity.

**Cause of Condition**

The program has not prepared a procedures manual to establish the official documentation to be requested to the participants and the procedures to follow in the eligibility determination. The program did not perform a revision of each case at least once a year in order to identify any change in the standards and conditions that made the participant eligible to receive the benefits.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Mayor Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-14 (Continued)</b>
<b>Effect of Condition</b>	The Municipality is in noncompliance with 24 CFR, Section 570.484.
<b>Recommendation</b>	<p>We recommend the Program to establish the following procedures:</p> <ul style="list-style-type: none"><li>a. Prepare a procedures manual to establish the official documentation to be requested to the participants and the procedures to follow in the eligibility.</li><li>b. Determine the applicants eligibility based on documentation or procedures such as: family income evidence (pay stub, income tax returns, etc.), family expenses evidence (medical expenses, utilities expenses, etc.), applicants and other family members identity verification (through social security cards, birth certificates, etc.), current health certificates, and visits to the applicants housing unit prior to the admission to the Program.</li><li>c. Notify approvals or denials of applications through letters.</li><li>d. Sign written agreements establishing the services plan to be offered by the Program.</li><li>e. Visit at least two times per month the participants housing unit to ensure quality of services.</li><li>f. Assessment of housekeeper's performance.</li><li>g. Perform an annual revision of each case to verify eligibility.</li><li>h. Assure that the funds approved to participants for housing rehabilitation are used for allowable activities included in the Grant Agreement and CDBG Annual Action Plan.</li></ul>
<b>Questioned Costs</b>	None
<b>Management Response</b>	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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-15**

**Program**                    **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**            **Allowable Cost-Cost Principles**

**Statement of Condition** **During our disbursement test on the Section 8 Housing Choice Voucher Program we noted the following exceptions:**

- a. Two (2) cancelled checks were not available for our examination.
- b. Two (2) professional service invoices did not detail the service rendered by the consultant. The contract stated that the consultant will provide services related to resolve audit findings and to update the waiting list. As result of our audit procedures we determined that the waiting list was not duly maintained during the audit period and the prior year audit findings were not corrected by the program. We examined invoices amounting to \$5,400.
- c. The Municipality did not withhold the 7% for professional services rendered in two (2) invoices paid to a consultant.
- d. The Municipality paid an invoice to a consultant for professional services rendered to other federal program. The invoice did not detail the total hours incurred in that activity. As result, we were unable to determine the amount incorrectly billed to Section 8 Program.
- e. The Municipality paid an invoice of \$7,000 to a consultant who charged professional services which belonged to other federal program.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 15 (Continued)**

f. The Municipality contracted a lawyer to provide the following services:

- Evaluate and approve the Housing Assistance Payments.
- Analyze documents and contracts.
- Represent the client in hearings, claims, and other notary services.

We consider that those services were not necessary and reasonable for proper and efficient performance and administration of the Section 8 Program. The responsibility of analyzing documents, contracts and other matters belong to the Federal Program Director and to the Section 8 Employees. We examined invoices amounting to \$14,880.

**Criteria**

OMB Circular A-87 General Principles For Determining allowable Costs, Part C.1, (Factors affecting allowability of costs) states that in order to be allowable under federal award, the costs must be necessary and reasonable for proper and efficient performance and administration of Federal Awards and be adequately documented. In addition, the cost must be reasonable and prudent. In determining reasonableness of a given cost, the cost must be ordinary and necessary for the operation of the program.

**Cause of Condition**

The Municipality did not maintain adequate monitoring procedures to assure that the professional services rendered are necessary and reasonable. In addition, no adequate control exists to assure that the costs charged to a federal program were for services provided to the program and not to other federal program.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02- 15 (Continued)</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with OMB Circular A-87 General Principles for Determining Allowable Costs, Part C.1, (Factors affecting allowability of costs).
<b>Recommendation</b>	We recommend the Municipality to establish monitoring procedures to assure that professional service contracts maintained by the program are necessary and reasonable and the professional service costs charged to the program are allowable, reasonable and prudent.
<b>Questioned Costs</b>	<b>\$27,200</b>
<b>Management Response</b>	The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-16</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized Cash Management Test and after our procedures were performed we found that the Municipality requested funds that were not disbursed on a reasonable lapse of time and the programs maintained an excessive cash balance in books of approximately \$150,000. We noted that for six months the leasing rate was under 95% and a revised requisition (Form 52663) was not submitted to HUD to reduce the monthly advances.
<b>Criteria</b>	OMB Common Rules, 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 disbursement by the grantee.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).
<b>Recommendation</b>	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. The management must submit a revise requisition (Form 52663) to HUD when the leasing rate not exceeds the 95% in order to avoid and excessive adjusted cash balance in books.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-17**

**Program**                      **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**              **Eligibility of Individuals**

**Statement of Condition**    During our examination of forty-two (42) participant files, we noted the following exceptions related to the Housing Assistance Payment calculation:

- a. The Fair Market Rent used to calculate the Housing Assistance Payment was not updated with the Current HUD “Fair Market Rent” tables in ten (10) cases.
- b. We found errors in the Housing Assistance Payment calculation in two (2) participant files since there was no information of hours worked by the participants in the income certification and the utility allowance was not duly determined.
- c. In one (1) participant file the Housing Assistance Payment as per contract (Form 52641) was not in accordance with the payment calculated as per Family Report (Form 50058). After our audit procedures, we determined that the Municipality paid \$250 in excess of the Housing Assistance Payment.
- d. One (1) Housing Assistance Payment contract was not in accordance with the actual HAPs paid to the owner. Also, we determined that the Municipality paid \$8 in excess of the Housing Assistance Payment.
- e. In one (1) participant file there was no evidence which certified us the utilities provided by the owner or the tenant in order to re-compute the Housing Assistance Payment.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 17 (Continued)**

- f. In one (1) participant file the Family Report was not available for examination. As result, we were unable to re-compute the Housing Assistance Payment.
  
- g. Two (2) participant files were not available for examination. As result, we were unable to re-compute the Housing Assistance Payment.

**Criteria**                      Code of Federal Regulations 24, Section 982.503 establishes how the PHA must determine and use the payment standard. Code of Federal Regulations 24, Section 982.505 establishes the procedures to follow in order to calculate the Housing Assistance Payment. The Housing Choice Voucher Guidebook, Chapter six (6) establishes procedures for the HAPs calculation.

**Cause of Condition**      The Federal Programs Department did not maintain consistency and monitoring procedures in order to assure that the Housing Assistance payment standard used in the Family Report calculation is in accordance with the updated HUD Fair Market Rent tables. Also, no monitoring procedures exist in order to detect incorrect computation of Housing Assistance Payments.

**Effect of Condition**      The Municipality is not in compliance with Code of Federal Regulations 24, Sections 982.503 and 982.505.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-17 (Continued)**

**Recommendation**      We recommend the Municipality to establish monitoring procedures in order to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.

**Questioned Costs**      None

**Management Response**      The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**        **02-18**

**Program**                    **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**            **Eligibility of individuals**

**Statement of Condition** During our eligibility test, we examined a sample of forty-two (42) participant files. The following summarize the exceptions found:

- a. Eighteen (18) participant files did not include a General Release Form to allow PHA to obtain information from third parties.
- b. In seventeen (17) participant files the release forms to allow PHA to obtain information from third parties did not include the date it was signed and in one (1) file we found a release form from prior year.
- c. Thirty three (33) participants with eighteen years or more did not sign the Privacy Act Notice.
- d. In Two (2) participant files the Department of Labor Certification and one (1) student certification were not available for our examination.
- e. In ten (10) participant files there was no sufficient evidence of third party family income.
- f. One (1) Housing Assistance Payment cancelled check was not available for our inspection.
- g. In eight (8) participant files the application form was not completed during PHA staff interview.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 18 (Continued)**

- h. In one (1) participant file the date and signature was not registered in the application form during the staff interview.
- i. In two (2) participant files the Housing Assistance Payment contract was not available for our examination.
- j. In three (3) cases the Good Behavior Certificate was not available for examination. The Municipality did not document in the tenant file why third party verification of the value of assets was not obtained during the eligibility determination.

**Criteria**                      Code of Federal Regulations 24, Sections 5.230, 5.212 and 982.516 states that as a condition of admission or continued occupancy, the PHA must 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 maintain adequate monitoring 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 5.230, 5.212 and 982.516.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 18(Continued)**

**Recommendation**      We recommend the Program to establish adequate monitoring procedures in order to assure that the release form to allow information from third parties, employment information and the Privacy Act Notice and all required participants information are included in the participant files as required by Federal Regulations. In addition, third party verification should be obtained to verify the value of assets or the program must include adequate documentation explaining the reason why third party verification was not obtained.

**Questioned Costs**      None

**Management Response**      The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-19**

**Program**                      **Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**

**Requirement**              **Reporting**

**Statement of Condition** During our reporting test, we noted the program did not prepare accurate closing reports. The following exceptions were found:

- a. The Voucher for Payment of Annual Contribution and Operation Statement for Voucher Program were not properly completed.
- b. The General Ledger reserve accounts, The Cumulative HUD Annual Contribution and the Prepaid Annual Contribution were not properly adjusted by the program as per HUD revised closing report.
- c. The prior year adjustments as per closing report did not agree with the amount recorded in the general ledger. The program adjusted \$93,377 in the closing report and no evidence was available to support the adjustment. We detected that the difference is mainly due to unrecorded expenditures. The Municipality paid about \$46,155 which was not recorded as expenditures in the general ledger.
- d. The Supporting Documentation Schedule for use with form HUD-52681 (Part I – Earned for Ongoing Administrative Fee) submitted to HUD belong to fiscal year 2000-2001. The Ongoing Administrative Fees Earned of \$86,378 as per HUD revised closing reports was incorrectly computed. We proceeded to re-compute the correct Ongoing Administrative Fees Earned amounting to \$106,224.
- e. We noted that the program administrative expenditures exceed the administrative fee earned. In addition, as of 6/30/02 the closing reports approved by HUD presented a deficit of \$44,348.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 19(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 provide adequate training to the program staff and did not maintain adequate monitoring procedures to assure that closing reports are properly prepared and that the accounting records present all the transactions realized during the year by the program.

**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 the Municipality to provide adequate training to the program staff. Also, the supervisor should develop a monitoring system in order to detect and correct the deficiencies related to closing reports and accounting records. In addition, the Municipality must be aware to not exceed the administrative expenses over the administrative fees earned in the year 2002-2003 since the program reserve is in deficit and the cash balance in bank must be used only for Housing Assistance Payments.

**Questioned Costs**      None

**Management Response**      The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-20</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Performance Reporting</b>
<b>Statement of Condition</b>	The Municipality answered a (yes) for the items 1(b), 2(b), 3, 4, 5, 6 and 10 of the SEMAP Report, nevertheless, the results of our test shows exceptions related to the compliance with those requirements.
<b>Criteria</b>	Code of Federal Regulations 24, CFR, Section 985.3 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.
<b>Cause of Condition</b>	The Municipality did not maintain adequate monitoring procedures to assure the program compliance with the SEMAP Report requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 985.3.
<b>Recommendation</b>	We recommend the Municipality to establish adequate monitoring procedures in order to assure the program compliance with federal regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-21</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Reporting</b>
<b>Statement of Condition</b>	In ten (10) cases the HUD 50058 Family Report Form (OMB No. 2577-0083) obtained from the computer software to be transmitted to HUD was not available for examination. In addition, the program did not maintain a file documenting by date the Section 8 inventory information was obtained from the HUD's Central Accounting and System (HUDCAPS) which indicate the transmissions performed by the Municipality during the period. That information allows us to verify if the Municipality is performing transmissions of the Family Report as required by Federal Regulations.
<b>Criteria.</b>	Code of Federal Regulations 24, Part 908 requires to the PHA to submit HUD-50058, Family Report Form 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 Form when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.
<b>Cause of Condition</b>	The Municipality does not maintain appropriate records to support that HUD 50058, Family Report Form (OMB No. 2577- 0083) are transmitted electronically as required by Federal Regulations.
<b>Effect of Condition</b>	The Municipality is in not compliance with Code of Federal Regulations 24, Part 908.
<b>Recommendation</b>	We recommend the Municipality to establish internal control procedures to properly document evidence which support that the Family Reports are electronically transmitted to HUD.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality 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, 2002

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-22</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Selection from the Section 8 Waiting List</b>
<b>Statement of Condition</b>	During our waiting list test we found the following exceptions: <ol style="list-style-type: none"><li>a. In thirty eight (38) cases the application date was not recorded in the waiting list.</li><li>b. The program maintains two (2) waiting lists. Both lists include units of two and three rooms.</li><li>c. Two (2) participants were not included in the waiting list.</li><li>d. The program did not maintain a manual book or a computer software in order to avoid changes in the waiting list.</li><li>e. In seven cases (7) the date of the participant application did not agree with the date recorded in the waiting list.</li><li>f. In seven cases (7) the date of the voucher did not agree with the date recorded in the waiting list.</li><li>g. There is no adequate documentation which allows us to trace how the participants are selected from the top of the waiting list.</li></ol>
<b>Criteria</b>	Code of Federal Regulations 24, Sections 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>02-22( Continued)</b>
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal control procedures to assure that the waiting list include all information required by Federal Regulation and to assure that the participants were selected from the top of the waiting list.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.
<b>Recommendation</b>	We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend the management to establish adequate internal control procedures to enable us to perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-23</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Reasonable Rent</b>
<b>Statement of Condition</b>	During our Reasonable Rent test we found the following exceptions: <ul style="list-style-type: none"><li>a. We noted that the determination of reasonable rent survey was not properly performed in forty two (42) participant files examined by us.</li><li>b. The Municipality documented in the survey, as comparable units, the same units which participate in the Section 8 Program.</li><li>c. The reasonable rent survey submitted to us did not include all the requirements: unit age, utilities included, amenities, and telephone of the property's owner.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, Section 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and before any increase in the rent to the owner and all the times during the assisted tenancy. The rent paid to the owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. In addition, the PHA must maintain records to document the basis for the determination that the rent paid to the owner is reasonable.
<b>Cause of Condition</b>	The Federal Program Department did not maintain adequate documentation to support the basis for the determination that the rent paid to the owner is reasonable.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.507.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-23 (Continued)**

**Recommendation**      We recommend the Federal Program Department to establish controls to assure that the reasonable rent survey for unassisted units is realized and that appropriate documentation of the determination of reasonable rent is maintained in participant's files.

**Questioned Costs**      None

**Management Response**      The Municipality 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, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-24</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The Municipality performed a utility allowance study for the audit period ending June 30, 2002 which was not duly documented. We could not verify if there has been a change of 10 % or more in the utility rate with the information received from the program.
<b>Criteria</b>	Code of Federal Regulations, 24 CFR Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time utility allowance was revised.
<b>Cause of Condition</b>	The Municipality did not document the evidence necessary to verify that its utility allowance study had been properly prepared in order to determine if there has been a change of 10 % or more in utility rate.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR Section 982.517.
<b>Recommendation</b>	The Municipality should properly document the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality 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, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 02-25

Program Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development

Requirement Special Test - Housing Quality Standards Inspections and HQS Enforcement

Statement of Condition During our verification of forty (40) participant files we noted the following exceptions:

- a. In ten (10) participant files with inspection items which required repairs or changes the program did not document letters sent to property owners requesting the correction of deficiencies in the required period of thirty (30) calendar days. We found no evidence supporting that the corrections were performed by the property owner and no documentation is on file where the Municipality notified the property owner that the Housing Assistance Payment has been stopped (abate).
- b. The Municipality did not perform the required Housing Quality Control Reinspections during the audit period.
- c. In nine (9) participant files the inspectors did not evaluate all the required items of the inspection report.
- d. In two (2) participant files the inspection was performed after a twelve (12) months period.

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.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-25 (Continued)</b>
<b>Criteria (continued)</b>	24 CFR, Section 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.
<b>Cause of Condition</b>	The Municipality did not maintain adequate monitoring procedures to assure that annual re-inspections and Housing Quality Control re-inspections are properly performed. Also, the Municipality did not follow the procedures to assure the compliance with Housing Quality Standards Enforcements.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Section and 982.404.
<b>Recommendation</b>	We recommend management to implement internal control procedures to assure that annual inspections and quality control re-inspections are properly performed. The PHA supervisor or other qualified person must re-inspect a sample of units under contract during the last PHA fiscal year. HQS quality control re-inspections included in the sample must be no older than three months from the time of the annual re-inspection was made. In addition, the quality control re-inspection should provide feedback on inspectors' work, which can be used to determine if individual performance or general HQS training issues need to be addressed.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02- 25(Continued)**

**Recommendation**      For HQS deficiencies that are the owner's responsibility and are not corrected within the prescribed time frames, the PHA must abate housing assistance payments beginning no later than the first of the month following expiration of the PHA violation notice.

**Questioned Costs**      None

**Management Response**      The Municipality 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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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-05	14.218	<u>The Municipality did not maintain adequate cash management procedures.</u>  No corrective action was taken. See current year Finding Number 02-07.
01-06	14.218	<u>Davis-Bacon Act</u>  No corrective action was taken. See current year Finding Number 02-08.
01-07	14.218	<u>Inadequate Property Records</u>  No corrective action was taken. See current year Finding Number 02-09.
01-08	14.218	<u>Procurement and Suspension and Debarment</u>  No corrective action was taken. See current year Finding Number 02-10.
01-09	14.855 14.857	<u>Allowable Costs</u>  No corrective action was taken. See current year Finding Number 02-14.
01-10	14.855 14.857	<u>The Municipality did not maintain adequate cash management procedures.</u>  No corrective action was taken. See current year Finding Number 02-15.
01-11	14.855 14.857	<u>Eligibility Test</u>

**COMMONWEALTH OF PUERTO RICO  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		No corrective action was taken. See current year Findings Number 02-16 and 02-17.
01-12	14.855 14.857	<u>Procurement and Suspension and Debarment</u>
		No corrective action was taken. See current year Finding Number 02-10.
01-13	14.855 14.857	<u>The Municipality did not prepare accurate closing reports</u>
		No corrective action was taken. See current year Finding Number 02-18.
01-14	14.855 14.857	<u>Performance Reporting</u>
		No corrective action was taken. See current year Finding Number 02-19.
01-15	14.855 14.857	<u>Family Reports (HUD 50058), from HUD computer system were not available for our examination.</u>
		No corrective action was taken. See current year Finding Number 02-20.
01-16	14.855 14.857	<u>Special Test – Selection from the Section 8 Waiting List</u>
		No corrective action was taken. See current year Finding Number 02-21.
01-17	14.855 14.857	<u>Special Test – Housing Quality Standards Inspections and Enforcement</u>
		No corrective action was taken. See current year Finding Number 02-24.

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

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 2001-02 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>
00-16	All Programs	<p><u>Inadequate Property Records</u></p> <p>No corrective action has been taken See current year Finding Number 02-02.</p>
00-17	14.857	<p><u>Federal Cash Management System</u></p> <p>No corrective action has been taken See current year Finding Number 02-15.</p>
00-19	14.855	<p><u>Subsidy Computation</u></p> <p>Full corrective action was taken.</p>
00-20	14.855	<p><u>Federal Cash Management System</u></p> <p>No corrective action has been taken See current year Finding Number 02-15.</p>
00-21	14.855	<p><u>Inadequate Documentation of Participant Files</u></p> <p>No corrective action has been taken See current year Findings Number 02-16 and 02-17</p>

COMMONWEALTH OF PUERTO RICO  
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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
00-22 00-27	14.218	<u>Federal Cash Management System</u>  No corrective action has been taken See current year Finding Number 02-07.
00-23 00-24 00-25	14.218	<u>Davis Bacon Act</u>  No corrective action has been taken See current year Finding Number 02-08.
00-28	14.218	<u>Inadequate Documentation of Participant Files</u>  No corrective action has been taken See current year Finding Number 02-12.