

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE VILLALBA

AUDITORIA 2001-02

30 DE JUNIO DE 2002

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MUNICIPALITY OF VILLALBA, PUERTO RICO

**General-Purpose Financial Statements
and Single Audit Reports**

Year ended June 30, 2002

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Municipality of Villalba

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To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico

Independent Auditors' Report

We have audited the accompanying general-purpose financial statements of the Municipality of Villalba, Puerto Rico ("Municipality"), as of and for the year ended June 30, 2002, as listed in the foregoing 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 two paragraphs, 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 of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note 6, the Municipality did not maintain complete and adequate records supporting the value of the general fixed assets included in the Municipality's general fixed assets account group. Because of the absence of significant accounting records related to these general fixed assets, it was not practicable to extend our auditing procedures to enable us to form an opinion on the Municipality's general fixed assets account group.

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
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The Municipality did not maintain complete and adequate records supporting the balances due from other funds and due to other funds included in the Municipality's combined balance sheet. Because the Municipality has been unable to provide detailed and reconciled supporting records related to these balances, it was not practicable to extend our auditing procedures to enable us satisfy ourselves regarding those balances.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group and the balances due from other funds and due to other funds referred to in the third and fourth paragraph respectively above, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Villalba as of June 30, 2002, and the results of the operations of its governmental fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, which identified material weaknesses related to the lack of adequate accounting records and systems necessary to prepare general-purpose financial statements as well as the lack of a system of internal control to ensure compliance with laws and regulations which are material to those financial statements. As discussed in those reports, the Municipality has a deficiency in unreserved fund balances of approximately \$1.7 million after reserves in its general fund as of June 30, 2002, and has had recurring deficiencies of revenues over expenditures before other financing resources during five of its last six years. The report on internal control and compliance is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
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Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Municipality of Villalba, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Government, and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects in relation to the general-purpose financial statements taken as a whole.

Rosalva, Ocasio
Auditing & Consulting Group, P.S.C.

December 17, 2002

License No. 74
Expires December 1, 2004



MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINE BALANCE SHEET
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNTS GROUPS
June 30, 2002

	<u>Governmental Fund Types</u>				<u>Accounts Groups</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Assets (Unaudited)</u>	<u>General Long-Term Debt</u>	
<u>ASSETS AND OTHER DEBITS</u>							
Assets:							
Cash and cash equivalents	\$ 1,901,589	\$ 366,477	\$ -	\$ 1,060,525	\$ -	\$ -	\$ 3,328,591
Cash held with fiscal agent	244,464	-	529,066	84,624	-	-	858,154
Accounts receivable:							
Due from other funds	639,491	32,962	-	1,703,197	-	-	2,375,650
Due from other governmental entities	83,014	5,629	-	223,561	-	-	312,204
General Fixed Assets	-	-	-	-	18,392,441	-	18,392,441
Other debits:							
Amount available in Debt Service Fund	-	-	-	-	-	388,484	388,484
Amount to be provided for:							
Retirement of general long-term debt obligations	-	-	-	-	-	749,516	749,516
Payment of amounts advanced from							
Puerto Rico Treasury Department	-	-	-	-	-	286,511	286,511
Payment of amounts advanced from CRIM	-	-	-	-	-	1,141,997	1,141,997
Payment of long term agreement with							
Government Development Bank	-	-	-	-	-	9,222	9,222
Retirement of long-term debt with USDA - RD	-	-	-	-	-	375,013	375,013
Payment of accrued vacations and sick leave	-	-	-	-	-	849,286	849,286
Payment of long term agreement with							
the Puerto Rico Department of Labor	-	-	-	-	-	211,397	211,397
Total assets and other debits	\$ 2,868,558	\$ 405,068	\$ 529,066	\$ 3,071,907	\$ 18,392,441	\$ 4,011,426	\$ 29,278,466

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINE BALANCE SHEET
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNTS GROUPS
June 30, 2002

	<u>Governmental Fund Types</u>				<u>Accounts Groups</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Assets (Unaudited)</u>	<u>General Long-Term Debt</u>	
<u>LIABILITIES AND FUND EQUITY (DEFICIT) AND OTHER CREDITS</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 584,167	\$ -	\$ -	\$ 343,515	\$ -	\$ -	\$ 927,682
Due to other funds	1,721,835	236,964	-	416,851	-	-	2,375,650
Due to other governmental entities	1,254,277	-	-	-	-	-	1,254,277
Deferred volume of business tax	641,070	-	-	-	-	-	641,070
Deferred federal financial assistance revenue	-	-	-	28,066	-	-	28,066
General long-term debt obligations	-	-	140,582	-	-	1,138,000	1,278,582
Advances from Puerto Rico Treasury Department	-	-	-	-	-	286,511	286,511
Advances from CRIM	-	-	-	-	-	1,141,997	1,141,997
Provision for long term agreement with							
Government Development Bank	-	-	-	-	-	9,222	9,222
Long-term debt with USDA - RD	-	-	-	-	-	375,013	375,013
Accrued vacations and sick leave	-	-	-	-	-	849,286	849,286
Provision for long-term agreement with the							
Puerto Rico Department of Labor	-	-	-	-	-	211,397	211,397
Total liabilities	4,201,349	236,964	140,582	788,432	-	4,011,426	9,378,753
Fund equity (deficit) and other credits:							
General fixed assets	-	-	-	-	18,392,441	-	18,392,441
Fund balances:							
Reserved for encumbrances	84,890	-	-	-	-	-	84,890
Reserved for debt service	-	-	388,484	-	-	-	388,484
Reserved for capital projects	244,464	-	-	-	-	-	244,464
Reserved for federal programs and state statutes	-	168,104	-	2,283,475	-	-	2,451,579
Unreserved fund balance (deficit)	(1,662,145)	-	-	-	-	-	(1,662,145)
Total fund equity (deficit) and other credits	(1,332,791)	168,104	388,484	2,283,475	18,392,441	-	19,899,713
Total liabilities, fund equity (deficit) and other credits	\$ 2,868,558	\$ 405,068	\$ 529,066	\$ 3,071,907	\$ 18,392,441	\$ 4,011,426	\$ 29,278,466

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
ALL GOVERNMENTAL FUNDS TYPES
Year Ended June 30, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
REVENUES:					
Property taxes	\$ 630,491	\$ -	\$ 277,990	\$ -	\$ 908,481
Volume of business tax	821,013	-	-	-	821,013
Licenses and permits	159,483	-	-	-	159,483
Intergovernmental revenues	5,266,879	457,546	-	1,779,124	7,503,549
Federal financial assistance	-	405,461	-	816,875	1,222,336
Rent of property	30,700	-	-	-	30,700
Interest	14,297	181	7,219	182	21,879
Miscellaneous	292,277	-	-	-	292,277
Total revenues	7,215,140	863,188	285,209	2,596,181	10,959,718
EXPENDITURES:					
General Administration	3,901,527	581,124	-	126,750	4,609,401
Public Safety	472,270	17,782	-	-	490,052
Public Works	1,547,367	-	-	-	1,547,367
Culture and Recreation	343,211	-	-	-	343,211
Environmental Control	40,680	-	-	-	40,680
Health	338,869	-	-	-	338,869
Education	94,984	-	-	-	94,984
Welfare	-	345,194	-	28,248	373,442
Capital Outlays	262,269	29,570	-	2,053,409	2,345,248
Debt Service:					
Payment of principal	166,347	-	135,000	-	301,347
Interest	26,781	-	57,333	-	84,114
Total expenditures	7,194,305	973,670	192,333	2,208,407	10,568,715
Excess (deficiency) of revenues over expenditures	20,835	(110,482)	92,876	387,774	391,003
OTHER FINANCIAL SOURCES (USES):					
Operating transfers from other funds	8,640	-	-	-	8,640
Operating transfers to other funds	-	-	(8,640)	-	(8,640)
Proceeds from issuance of long-term debt with GDB	150,000	-	-	-	150,000
Advances received from USDA - RD	-	-	-	375,013	375,013
Net other financing sources (uses)	158,640	-	(8,640)	375,013	525,013
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	179,475	(110,482)	84,236	762,787	916,016
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS REPORTED	(1,900,166)	278,586	663,652	1,520,688	562,760
PRIOR PERIODS ADJUSTMENTS	387,900	-	(359,404)	-	28,496
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS ADJUSTED	(1,512,266)	278,586	304,248	1,520,688	591,256
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (1,332,491)	\$ 168,104	\$ 385,484	\$ 2,283,475	\$ 1,507,272

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL AND DEBT SERVICE FUNDS
Year Ended June 30, 2002

	General Fund			Debt Service		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:						
Property taxes	\$ 831,994	\$ 630,491	\$ (201,503)	\$ 247,741	\$ 277,990	\$ 30,249
Volume of business tax	721,889	821,013	99,124	-	-	-
Licenses and permits	130,273	159,483	29,210	-	-	-
Intergovernmental revenues	4,932,215	5,059,033	126,818	-	-	-
Rent of property	14,845	30,700	15,855	-	-	-
Interest	-	14,297	14,297	-	7,219	7,219
Miscellaneous	114,962	292,277	177,315	-	-	-
Total revenues	6,746,178	7,007,294	261,116	247,741	285,209	37,468
EXPENDITURES:						
General Administration	3,858,824	3,917,691	58,867	-	-	-
Public Safety	474,389	451,406	(22,983)	-	-	-
Public Works	1,675,521	1,458,266	(217,255)	-	-	-
Culture and Recreation	346,272	341,214	(5,058)	-	-	-
Environmental Control	46,488	38,177	(8,311)	-	-	-
Health	344,683	338,869	(5,814)	-	-	-
Education	-	-	-	-	-	-
Welfare	-	-	-	-	-	-
Capital Outlays	-	262,269	262,269	-	-	-
Debt Service:						
Payment of principal	-	166,347	166,347	197,585	135,000	(62,585)
Interest	-	26,780	26,780	50,156	57,333	7,177
Total expenditures	6,746,178	7,001,019	254,841	247,741	192,333	(55,408)
Excess (deficiency) of revenues over expenditures	-	6,275	6,275	-	92,876	92,876
OTHER FINANCIAL SOURCES (USES):						
Operating transfers from other funds	-	8,640	8,640	-	-	-
Operating transfers to other funds	-	-	-	-	(8,640)	(8,640)
Proceeds from issuance of long-term debt with GDB	-	150,000	150,000	-	-	-
Net other financing sources (uses)	-	158,640	158,640	-	(8,640)	(8,640)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ -	\$ 164,915	\$ 164,915	\$ -	\$ 84,236	\$ 84,236

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Villalba, Puerto Rico ("Municipality") was founded in 1917. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and fourteen members Municipal Legislature who are elected for four years terms through the Commonwealth of Puerto Rico general elections.

The Municipality provides general and administrative services, public safety, public work, culture and recreation, environmental control, health, education, housing and urban development, welfare and other miscellaneous services.

Since 1995, the Municipality is member of Consorcio de la Montaña, a local workforce investment area according to Section 116 (A) of Public Law 105-220 known as Workforce Investment Act of 1998 (WIA). The purpose of the Consorcio is to provide One-Stop service delivery area to administer federal programs and services pursuant to the Workforce Investment Act. The Mayor is member of the Board of Mayors which is responsible for the operations and decisions of the Consorcio.

A. THE FINANCIAL REPORTING ENTITY

The accompanying general-purpose financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

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, The Financial Reporting Entity, of the Governmental Accounting Standards Board. The

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

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

Based on these criteria, at June 30, 2002, there are no potential component units for which the Municipality exercises oversight responsibility. Therefore, the reporting entity is limited to those departments, which comprise the Municipality's primary government.

B. BASIS OF PRESENTATION

The Municipality reports its financial position and results of operations in funds and account groups, each of which is considered an independent fiscal entity. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

The general-purpose financial statements have been prepared from accounts maintained by the Department of Finance of the Municipality. Additional data has been obtained from reports prepared by other departments based on independent or subsidiary accounting records maintained by them. Transactions between funds within a fund type, if any, have been eliminated.

The Municipality has established the following fund types and accounts groups:

Governmental Fund Types

Governmental funds are used to account for the general government functions of the Municipality. The following are the Municipality's governmental funds.

General Fund— This is the general operating fund of the Municipality and accounts for all financial transactions, except those required to be accounted for in another fund.

Special Revenue Fund— These funds account for revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund— This fund is used to account for the accumulation of resources for and the payment of principal and interest on, the Municipality's general long-term debt obligations which are recorded in the general long-term debt account group. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

Capital Projects Fund– is used to account for financial resources reserved for the acquisition or construction of major capital facilities.

Account Groups

The following account groups are used to establish accounting control accountability for the Municipality's general fixed assets and long-term obligations:

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

General Long-Term Debt Account Group– This group of accounts is established to account for all long-term debt of the Municipality.

C. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

The governmental fund types follow the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recognized when they are both measurable and available. Revenues are measurable when they are subject to reasonable estimation, and are available when they are collectible within the current period or soon enough thereafter to pay current liabilities. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the year to which they apply.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

In applying the modified accrual basis to intergovernmental revenues (grants, subsidies and shared revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of such revenues. In some cases, moneys must be expended on the specific purpose or project before any amounts will be paid to the Municipality, therefore, revenues are recognized based upon the expenditures recorded. In other cases, moneys are virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the criterion of availability.

Revenues from licenses, permits, service charges, fines, penalties and other miscellaneous collections are recorded as revenues when received because they are generally not measurable until actually received.

Expenditures are recognized when the related liability is incurred. Principal and interest on bonds are recognized when amounts have been deposited with the fiscal agent to satisfy such debt in the debt service fund. Claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

D. CASH

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings account and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposit with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash held with fiscal agent in the general fund consists of unused loan proceeds from GDB for the payment of certain capital projects. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

E. FIXED ASSETS

For governmental fund types, general fixed asset acquisition are recorded as expenditures in the acquired fund and are capitalized in the general fixed assets account group for those assets where records are available to support costs. General fixed assets are recorded at cost or at estimated historical cost if actual historical cost is not available. No depreciation is provided on general fixed assets, and interest cost incurred during construction is not capitalized. General fixed assets do not include infrastructure such as roads, streets and similar assets that are immovable and of value only to the Municipality.

F. LONG-TERM DEBT

The liabilities reported in the general long-term debt account group include the general and special obligation notes and bonds and other long-term liabilities, such as vacation, sick leave, and long-term liabilities to other governmental entities.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

G. ENCUMBRANCES

Encumbrances accounting are used in all governmental funds. Under the encumbrances system all purchased orders, contracts and other commitments for expenditures of resources are recorded to reserve the portion of applicable appropriation for future obligations. Open encumbrances at year-end are reported as a reserve of fund balance since they do not constitute expenditures or liabilities. Encumbrances do not lapse at the close of the fiscal year but are carried forward as a reserve of fund balance until liquidated.

H. INTER-FUNDS TRANSACTIONS

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

I. OPERATING TRANSFER FROM (TO) OTHER FUNDS

During the fiscal year ended June 30, 2002, the Debt Service Fund transferred to the General Fund a total of \$8,640 representing interest earned on deposits held on behalf of the Municipality by the Government Development bank of Puerto Rico.

J. RESERVATIONS OF FUND BALANCE

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

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

- Encumbrances– represent future expenditures under purchase orders, contracts and other commitments. Generally these committed amounts will become liabilities in future periods as the goods or services are received or performed. At June 30, 2002 the amount reserved for encumbrances was \$84,890.
- General Fund – represents the reservation of amounts to be used for future expenditures for capital projects under contract or commitments. At June 30, 2002 the amount reserved was \$244,464.
- Special Revenue Fund – represents net assets available for specific use under federal or state grant programs. At June 30, 2002, the amount reserved was \$168,104.
- Debt Service – represent net assets available to finance future debt service payments. At June 30, 2002 the amount reserved was \$388,484.
- Capital Project Fund - represents net assets available for specific capital projects under federal or state grant programs. At June 30, 2002, the amount reserved was \$2,283,475.

K. RISK FINANCING

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. The Puerto Rico Treasury Department negotiates insurance policies and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (“CRIM”) for the year ended June 30, 2002 amounted to approximately \$71,875. The CRIM also deducted

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

\$163,247 for workers compensation insurance covering all municipal employees.

L. COMPENSATED ABSENCES

Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. This liability is presented in the general long-term debt account group because it will not be funded with expandable financial resources.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the then current rate, if the employee has at least 10 years of service of the Municipality.

M. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

K. TOTAL COLUMNS (MEMORANDUM ONLY)

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position or results of operations, in conformity with accounting principles generally accepted in the United States of America. Such data

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

is not comparable to a consolidation since inter-funds elimination has not been made.

O. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Boards (GASB) has issued the following statements that the Municipality has not yet adopted:

Statement Number		Adoption required in fiscal year
34	Basic Financial Statements -- and Management's Discussion and Analysis- for State and Local Government	2002-03
37	Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus an amendment of GASB No. 21 and 34	2002-03
38	Certain Financial Statement Note Disclosures	2002-03

Specifically statement number 34 and 37 establishes new financial reporting requirements for state and local governments throughout the United States of America. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected.

As of the of the auditors reports the Municipality has not yet determined the full impact that adoption of these statements will have on the financial statements.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general and the debt service funds. Certain other budget are prepared on a grant or project basis, including the activities programmed under the Community Development Block Grant/State's Program (CDBG), however these are not legally enacted.

The Combined Statement of Revenues and Expenditures - Budget and Actual (NON-GAAP Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

The annual budget as presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (NON-GAAP Budgetary Basis) is the budget ordinance to June 30, 2002 representing the original budget adjusted by various Mayor's Resolutions and Municipal Legislature Ordinances.

B. BUDGETARY DATA RECONCILIATION

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2002 is presented below for the general, and debt service funds:

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

3. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomy Law of August 30, 1991. Since July 1, 1993, real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amount advances to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after the year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2002 presented in the general long-term debt account group amounted to \$1,141,797 (see note 11).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2001-2002, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based on conversations with CRIM executives, that when received, the final settlement from CRIM will not show a significant difference from the preliminary

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the final settlement, during the year ended June 30, 2002, the amount collected from taxpayers and charges by CRIM of \$5,108,172 is below the advances received by the Municipality for the same period by \$49,258. Such amount is presented as due to other governmental entities in the general fund in the combined balance sheet.

In accordance with Public Law 190 enacted on July 30, 1999 the Municipality was entitle to a moratorium on the payment of any debt to CRIM arising from the final settlements of advances vs. actual collections through fiscal year 1998-99. Such moratorium was due to expire on June 30, 2001 after which date the Municipality has the right to request a payment plan for a period of up to five years, in accordance with Public Law 234, enacted on August 12, 1998. However, on January 26, 2000, Public law 42 was enacted which revoked laws 190 and 234, and which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the Municipalities have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the Central Government to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of Public Law 238, enacted on August 15, 1999. In addition, Public Law 146 of October 11, 2001, as amended, amends law 42 to extent the term of the financing from 10 years to 30 years. Subsequently, on August 11, 2002 Public Law 172 was enacted which amends law 42, and which authorized the financing of debt that the Municipalities have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001.

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 Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2001-02 is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates is for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for general-purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

4. DEPOSITS

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$3,451,597 in the general fund, special revenue fund and capital projects fund were fully collateralized at June 30, 2002.

The deposits at GDB of approximately \$244,464 that are restricted for capital projects in the general fund, and the \$529,066 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

Municipality of Villalba
Notes to General-Purpose Financial Statements
June 30, 2002

5. MUNICIPAL LICENSE TAX

The Municipality imposes a municipal license tax on all business that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the prior year's gross sales. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2002, tax rates were as follows:

- Financial business - 1.50% of gross revenues
- Other organizations - .50% of gross revenues

All taxpayers are required to file their declaration five days after April 15 of each year. This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before five days after April 15 of each year.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

6. DUE FROM OTHER GOVERNMENTAL ENTITIES

Due from other governmental entities in the general fund, special revenue fund and the capital project fund principally represents expenditures incurred not yet reimbursed by the Puerto Rico central government and the U.S. federal government. The amounts were determined taking into consideration the specific years of the grant.

7. INTERGOVERNMENTAL REVENUES

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

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

Following is detail intergovernmental revenue:

Puerto Rico Electric Power Authority	\$ 524,659
Property Taxes - basic	4,487,656
Reimbursement from the Commonwealth of Puerto Rico for Christmas bonus expenditures	46,719
Grant from the Office for the Improvement of Public Schools	116,500
Grant from the Administration of Families and Childs	<u>91,345</u>
Total	\$ <u>5,266,879</u>

8. DUE TO OTHER GOVERNMENTAL ENTITIES

Current liabilities with other governmental entities at June 30, 2002 are as follows:

	<u>Due to</u>
Puerto Rico Aqueducts and Sewer Authority	\$ 217,956
Municipal Revenues Collection Center (CRIM)	889,894
Retirement System Administration	36,950
Puerto Rico Telephone Company	9,642
Department of Labor	98,087
General Services Administration	<u>1,748</u>
Total	\$ <u>1,254,277</u>

9. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of approximately \$641,070 in the general fund relates to municipal license tax collect in fiscal year 2001-02 that will be earned in fiscal year 2002-03.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

Federal Government

The deferred revenues presented in the special revenue funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. The amount was determined taking into consideration the specific years of the grant.

10. GENERAL FIXED ASSETS (UNAUDITED)

The Municipality has not maintained detailed, 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, construction in progress, building and other equipment neither for accurate recording of all assets acquired, disposed, or sold.

The following schedule summarizes the changes in the general fixed assets account group for the year ended June 30, 2002:

Balance at July 1, 2001	\$ 18,251,260
Additions	230,183
Retirements	(89,002)
Balance at June 30, 2002	\$ <u>18,392,441</u>

Municipality of Villalba
Notes to General-Purpose Financial Statements
June 30, 2002

11. GENERAL LONG-TERM DEBT

Changes in general long-term debt are summarized as follows:

	<u>Balance at July 1, 2001</u>	<u>Borrowings Or Additions</u>	<u>Payments or Deductions</u>	<u>Balance at June 30, 2002</u>
General obligations	\$ 1,123,000	\$ 150,000	\$ 135,000	\$ 1,138,000
Advances from PRTD	368,111	--	81,600	286,511
Advance from CRIM (Note 3)	1,141,997	--	--	1,141,997
Long-term agreement with GDB		11,964	2,742	9,222
Community Facilities Loans and Grants – Direct Loan		375,013		375,013
Accrued vacations and sick leave	771,450	77,836		849,286
P.R. Department of Labor and Human Resources	<u>290,555</u>	<u>--</u>	<u>79,158</u>	<u>211,397</u>
Total	\$ <u>3,695,113</u>	\$ <u>614,813</u>	\$ <u>298,500</u>	\$ <u>4,011,426</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

General obligations at June 30, 2002, consist of bonds and notes as follows:

• 1992 public improvements bonds due in annual installments of \$10,000 to \$31,000, through January 1, 2016, with interest at 5%.	\$ 313,000
• 1998 general obligations note due in annual installments of \$25,000 to \$45,000, through July 1, 2004; with interest ranging from 4.865% to 6.710%.	85,000
• 1998 general obligations note due in annual installments of \$20,000 to \$35,000, through July 1, 2005; with interest ranging from 4.865% to 6.310%.	95,000
• 2000 general obligations note due in annual installments of \$35,000 to \$50,000, through July 1, 2007; with interest ranging from 5% to 8%.	225,000
• 2001 general obligations bond due in annual installments of \$5,000 to \$30,000, through July 1, 2025; with interest ranging from 5% to 8%.	285,000
• 2002 general obligations note due in annual installments of \$15,000 to \$25,000, through July 1, 2008; with interest ranging from 5% to 7%.	<u>135,000</u>
Total general long-term debt obligations	\$ <u>1,138,000</u>

These notes and bonds are payable from the additional property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes (see Note 3).

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

During the fiscal year 2001-2002 the Municipality issued \$150,000 in general obligations notes for the purchase of equipment.

Advances from PRTD

On November 6, 2000, a formal agreement for the payment of property tax advances to the Puerto Rico Treasury Department was signed. The agreement consists in 59 monthly installments of \$6,800 and a final installment of \$7,711, starting January 1, 2001 through December 2005. All the payments will be made through retention from the monthly remittance from CRIM.

Advances from CRIM

This amount represents the balance owed to CRIM at June 30, 2002 as described in note 3, and that will be repaid through a financing to be obtained by the CRIM, as authorized by law and as explained in that note 3.

Long-term debt with GDB

In December 8, 2000 the Municipality received an operational loan from Government Development Bank for Puerto Rico of \$385,000 for the payment of statutory debt. Since the monies were never used, in June 21, 2001 the Municipality requested the cancellation of that loan. As of June 1, 2001 interest on the loan stop to accrue and a formal payment plan was agreed. The payment plan is for 48 monthly installments of \$249 from August 1, 2001 through July 1, 2005. All the payments will be made through retention from the monthly remittance from CRIM.

Community Facilities Loans and Grants – Direct Loan

In July 2, 2001 the Municipality obtained a direct loan from USDA – Rural Development of \$1,320,000 for the final construction of a municipal theater. In June 19, 2002, the Municipality received the first advance of \$375,013. All advances will be annotated into the “Payment Register of the Promissory Note in Advance of Global

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

Bonds” until reach total loan amount. Then a bond will be issued by GDB substituting the Global Note.

Long-term debt with PRDOL

In March 8, 2001 the Municipality refinanced a liability amounting to \$300,444, with the Puerto Rico Department of Labor. The agreement is for 36 monthly installments of \$9,889 including interest at approximately 11.4%. All the payments will be made directly from the Municipality.

The annual requirement for the amortization of general obligations outstanding as of June 30, 2002, is as follow:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 168,000	\$ 36,524
2004	158,000	70,281
2005	123,000	60,631
2006	99,000	51,959
2007	100,000	43,975
Next five years	183,000	103,000
Thereafter	<u>307,000</u>	<u>216,150</u>
Total	\$ <u>1,138,000</u>	\$ <u>582,520</u>

The annual requirement for the amortization of long-term debt with PRDOL outstanding as of June 30, 2002, is as follow:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 99,722	\$ 18,954
2004	<u>111,675</u>	<u>7,000</u>
Total	\$ <u>211,397</u>	\$ <u>25,954</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

The Municipality is subjected to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality. In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the project debt service requirement. Total property assessed value at June 30, 2002 amounted to \$30,239,805. General long-term debt, except for the general obligations and advances from CRIM, is paid with unrestricted funds.

12. PRIORS PERIODS ADJUSTMENTS

During the year, the Municipality corrected an accounting presentation error in prior year's financial statements in which cash held with fiscal agent for unused loans proceeds was presented in the incorrect fund:

Cash presented on debt service fund as of 06/30/00	\$ 42,229
Cash presented on debt service fund as of 06/30/01	293,525
Cash presented on debt service fund as of 06/30/01	<u>23,650</u>
Total priors periods adjustments	<u>\$359,404</u>

The Municipality also corrected an accounting error in prior year's financial statements in which net cash (\$28,496) for amounts received for insurances claims related to hurricane Georges and appropriate expenses was never booked on the general-purposes financial statements.

13. PENSION PLAN

The Employees' Retirement System of the Commonwealth and its Instrumentality's (the Retirement System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

Municipality of Villalba
Notes to General-Purpose Financial Statements

June 30, 2002

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have not completed ten years creditable service are entitled to an annual benefit payable in monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as define, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as define, and multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total employee and employer contributions during the year ended June 30, 2002 amounted to approximately \$179,179 and \$200,828, respectively.

On September 24, 1999, an amendment to Act. No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999 may elect to stay in the defined benefit plan or transfer to the new

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

program. Persons joining the Municipality on or after January 1, 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

14. COMMITMENTS

The Municipality had commitments at June 30, 2002 of approximately \$244,464 for the purchase of equipment and construction.

15. CONTINGENCIES

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsels, that the potential claims against Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

Municipality of Villalba

Notes to General-Purpose Financial Statements

June 30, 2002

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subjected to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" - for the year ended June 30, 2002 disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls.

If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. Management has not provided in the general long-term debt account group an estimated liability for the total exposure for claims and judgments arising lawsuits or federal actions.

MUNICIPALITY OF VILLALBA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor Pass-Trough Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass-Trough <u>Grantor Number</u>	Federal <u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871*	RQ-049-VO	\$322,639
Passed through the Puerto Rico Office of Commissioner of Municipal Affairs:			
Community Development Block Grant / State's Program			
	14.228*	B-93-CD-72-0001	3,428
	14.228*	B-97-CD-72-0001	7,036
	14.228*	B-98-CD-72-0001	7,146
	14.228*	B-99-CD-72-0001	22,385
	14.228*	B-00-CD-72-0001	193,998
	14.228*	B-01-CD-72-0001	<u>317,058</u>
Total U.S. Department of Housing and Urban Development			<u>551,051</u>
U.S. Department of Justice			<u>873,690</u>
Pass-through Puerto Rico Department of Justice:			
Crime Victims Assistance	N/A	98-VA-VCV-01	7,951
Crime Victims Assistance	N/A	99-VA-VCV-01	<u>23,067</u>
			<u>31,018</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor Pass-Trough Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass-Trough <u>Grantor Number</u>	Federal <u>Expenditures</u>
Local Law Enforcement Block Grant	N/A	2001-LB-BX-2794	<u>17,782</u>
Total U.S. Department of Justice			<u>48,800</u>
Federal Emergency Management Agency			
Pass-through GAR Disaster Assistance:			
FEMA 1247 Georges	83.544		<u>5,948</u>
Department of Transportation - Federal Transit Administration			
Rural Public Transportation Project under Section 5311	N/A	PR-18-X013-76(2)	108,844
Complementary Paratransit Service for persons with disabilities under Section 5311	N/A	PR-18-X014-76(3)	<u>29,570</u>
Total Department of Transportation - Federal Transit Administration			<u>138,414</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

Federal Grantor Pass-Trough Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass-Trough <u>Grantor Number</u>	Federal <u>Expenditures</u>
U.S. Department of Health and Human Services			
Pass-through Puerto Rico Department of Family:			
Community Services Block Grant	93.569		<u>5,105</u>
U.S. Department of Agriculture			
Passed through the Government Development Bank of Puerto Rico			
Community Facilities Loans and Grants – Direct Loan	10.766		<u>375,013</u>
Total Federal Financial Assistance			<u>\$1,446,970</u>

*Major Program

N/A- Number not available

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting and was prepared primarily from the Municipality's internal accounting records. The financial statements of the Municipality are presented on the basis of funds and account groups, each of which is considered a separate accounting entity. The operation of each fund is presented in a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts and other accounting records of the Municipality were not designed to capture the information required to prepare the general-purpose financial statements, consequently, such information was obtained from different individuals, departments and accounting records or reports which are not integrated into a double entry bookkeeping system. In addition, several departments within the Municipality are responsible for managing federal financial assistance and there is no centralized control for all federal financial assistance programs. The Municipality's reporting entity is defined in Note 1 to the general-purpose financial statements.

2. CATALOG OF FEDERAL DOMESTIC ASSISTANCE ("CFDA")

Catalogs of Federal Domestic Assistance ("CFDA") numbers are presented for programs for which such numbers are available.

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2002

3. RELATIONSHIP TO GENERAL-PURPOSE FINANCIAL STATEMENTS

Expenditures of the federal awards are included in the Municipality's general-purpose financial statements within the Special Revenue and Capital Projects Funds. The reconciliation between the expenditures in the general-purpose financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Expenditures in the general-purpose financial statements:

Special Revenue Fund	\$ 973,670
Capital Project Fund	<u>2,208,407</u>
Sub-total	<u>3,182,077</u>
Plus: advance received from USDA Rural Development and transfer to the General Long-Term Debt Account Group	375,013
Less: Local and Legislative grants and other miscellaneous charges	<u>(2,110,120)</u>
Expenditures in the Schedule of Expenditures of Federal Awards	\$ <u>1,446,970</u>



To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico

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

We have audited the financial statements of the Municipality of Villalba ("Municipality") as of and for the year ended June 30, 2002, and have issued our report thereon dated December 17, 2002. In our report, our opinion on the general-purpose financial statements was qualified because we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group and the amounts presented as due from other funds and due to other funds at June 30, 2002. Except as discussed above, 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'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 financial statements amounts. However providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 2002-01 thru 2002-13.

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality's ability to record process, summarize and report financial data consistent with the assertions of management in the general-purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-01 thru 2002-13.

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 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 timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However of the reportable conditions described above, we consider item 2002-01 to be material weakness.

To the Honorable Mayor
and Members of the Municipal Legislature
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This report is intended solely for the information and use of the Municipal Legislature, Municipality's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rosalby, Ocasio
Auditing & Consulting Group, P.S.C.

License No. 74

Expires December 1, 2004

December 17, 2002





To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico

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

Compliance

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

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

Honorable Mayor and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
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As described in the accompanying schedule of findings and questioned costs, the Municipality did not comply with requirements regarding; Allowable Costs / Cost Principles, Cash Management, Davis Bacon Act, Eligibility, Equipment and Real Property Management, Reporting, and Special Tests and Provisions, that are applicable to its major federal programs as identified in each condition included in the schedule of findings and questioned costs.

In our opinion, except for the noncompliance described in the preceding paragraph and the schedule of findings and questioned cost, Section III, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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'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 2002-14 thru 2002-26.

Honorable Mayor and Members of the Municipal Legislature
Municipality of Villalba
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A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that may be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-14 to be material weakness.

This report is intended solely for the information and use of the Municipal Legislature, Municipality's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 17, 2002

Rosalby, Ocasio

Auditing & Consulting Group, P.S.C.

License No. 74.

Expires December 1, 2004



Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section I - Summary of Auditor's Results

Financial Statements

- A.** We issued a qualified opinion on the general-purpose financial statements of Municipality of Villalba as of June 30, 2002.
- B.** Certain reportable conditions in the internal control over financial reporting were noted during our audit and disclosed in this report.
- C.** Non-compliance events that could be material to the general-purpose financial statements were reported.

Federal Awards

- D.** Certain reportable conditions in internal control over major programs were noted and disclosed in this report. Some reportable conditions are also considered material weaknesses and labeled (MW).
- E.** We issued a qualified opinion on compliance with requirements applicable to each major program and on internal control over compliance with OMB Circular A-133.
- F.** Our audit disclosed findings, which are required to be reported in accordance with OMB Circular A-133, Section 510 (a).

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section I - Summary of Auditor's Results

- G.** Major program identified during the year ended June 30, 2002 were the following:

Name of Federal Program	CFDA Number
Community Development	
Block Grants / State's Program	14.228
Section 8 Housing Choice Vouchers	14.871
Communities Facilities Loans and Grants – Direct Loan	10.766
Federal Transit Administration	PR-18-013-76(2)

- H.** We used \$300,000 as the dollar threshold to distinguish between Type A and Type B programs, as described in OMB Circular A-133, Section 510 (a).
- I.** The Municipality of Villalba does not qualify as a low risk auditee under OMB Circular A-133.

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

2002-01 GENERAL FIXED ASSETS AND GASB #34

STATEMENT OF CONDITION:

We were unable to make an audit of the general fixed assets. The Municipality has the following deficiencies:

- a) There are no adequate internal control procedures to ascertain that all applicable expenditures are properly recorded in the general fixed assets property ledger.
- b) The subsidiary ledger is not reconciled with the Municipality's accounting records.
- c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.
- d) The property records do not provide the necessary information to make the disclosures required by 1980 GAAFR (Governmental Accounting, Auditing and Financial Reporting).
- e) The acquisition of fixed assets is not always informed to the property custodian for the updating of the general fixed assets ledger on a timely basis.

As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between, land, building, equipment and construction in progress.

Municipality of Villalba

Schedule of Findings and Questioned Costs

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Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

This situation is having a significant impact during the implementation of Governmental Accounting Standards Board Statement 34, which for entities such as the Municipality is required to be implemented for the fiscal year ended June 30, 2003.

RECOMMENDATION:

We recommend that the Municipality:

- a) Establish adequate internal control procedures to assure that all applicable expenditures are properly recorded in the Municipality's accounting records on a timely basis.
- b) Perform a physical inventory of all property and equipment and compare it with the items recorded in the property ledger. All differences noted should be immediately investigated and resolved. After updating the property ledger, formal procedures should be established to take a physical inventory on a periodic basis.
- c) Revise the property records to provide the information necessary to make the disclosures required by the 1980 GAAFR, which consist of the following:
 - General fixed assets by sources
 - General fixed assets by function and activity classifications for each major assets class
 - Changes in general fixed assets by function and activities

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

- Changes in general fixed assets by major assets class
- d) Designed a person to analyze the expenditure accounts to identify and prepare a report of all items that should be included in the property records. This record should be sent to the property custodian to reconcile and update the property ledger on a monthly basis.
- e) Form a committee for the design and implementation of a formal strategic plan regarding GASB 34.

2002-02 ACCOUNTING SYSTEM

STATEMENT OF CONDITION:

The Municipality does not have accounting practices and policies that clearly provide for the preparation on a timely basis of the general-purpose financial statements in accordance with accounting principles generally accepted in the United States of America. The accounting system only provides for the recording of cash receipts and cash disbursements and a limited number of the other transactions, therefore, the financial information to prepare the general-purpose financial statement was obtain from various departments and accounting records within the Municipality. In addition, the accounting records are not integrated, and do not follow a double entry system (debits and credits).

The system lacks the necessary supporting records for the preparation of general-purpose financial statements in accordance with accounting principles generally accepted in the United States of America. We noted in the Municipality's accounting records that certain records in use were not adequately

Municipality of Villalba

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maintained or posted on a timely basis.

RECOMMENDATION:

The Municipality should implement a plan to convert its accounting system to allow for the preparation of monthly and year-end general-purpose financial statements in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities. This plan should provide for:

- a) The implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds,
- b) the preparation of the bank reconciliation on a timely monthly basis,
- c) recording of all fiscal year transactions in the general ledger,
- d) periodic financial reports to the Finance Director, the Mayor and the Municipal Legislature,
- e) reconciliation of financial records with the reports prepared and submitted to the federal government.

2002-03 OPERATING DEFICIT OF GENERAL FUND

STATEMENT OF CONDITION:

The Municipality has an accumulated deficit in its General Fund. The

Municipality of Villalba

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Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

general-purpose financial statements has had recurring deficiencies of revenues over expenditures before other financing resources during five of its last six years, and an accumulated deficit of \$1,662,145, for the general fund as of June 30, 2002. This is caused by the cumulative results from the past years in which expenditures have exceeded revenues. This is not in compliance with Chapter 7 of Law 81 of August 30, 1991, which provides specific requirements for the preparation of budgets. We noted the following instances of noncompliance concerning the budget for the fiscal year 2001-2002:

- Excess of budget revenues is allocated for activities not included in the original budget, without first considering those expenditures with current or expected overruns (Ordinance #23 2001-2002).

RECOMMENDATION:

We recommend the preparation of accurate periodical reports (tie-in with interim general-purpose financial statements) providing for comparison of actual results of operations against budgeted amounts. In addition, to comply with the applicable law, the management should considered increase amounts appropriated to reduce the accumulated deficit if any increase in collected revenues over budgeted amounts is reflected during any period of the year.

2002-04 CASH AND BANK ACCOUNTS

STATEMENT OF CONDITION:

The Municipality has not established adequate and sufficient controls in the handling of bank accounts to prevent errors and irregularities from being timely detected. Also, the Municipality is not adequately documenting the

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

management review and supervision function over the preparation of bank reconciliation's. The following control deficiencies were noted during our examination:

- a) The cash balance shown by the Municipality's Treasury Department of the Debt Service Fund as of June 30, 2002, did not agree with the notification of the Account Activity of the Municipal Revenues Collection Center, known by its Spanish acronym (CRIM). This is due to transactions for the fiscal year, which were not recorded in the Municipality's books.

RECOMMENDATION (a):

We recommend that the transactions affecting funds held by the CRIM for the Municipality's Debt Service Fund should be recorded on a timely basis and balances reconciled on a monthly basis.

- b) Also, the Municipality did not prepared the bank reconciliation for the following bank accounts:

- Banco Gubernamental de Fomento
CRIM - Villalba (CAE) (account number 250-17534)
- Banco Popular de Puerto Rico
Payroll (account number 127-831029)

RECOMMENDATION (b):

All bank accounts shall be reconciled on a timely basis every month and all reconciling differences must be investigated and cleared. All bank accounts

Municipality of Villalba

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must be recorded in books of the Municipality and any inactive account should be promptly closed and the available funds transferred to the general account or any other account, which may be required in the circumstances. We recommend that the Municipality's accounting system shall provide for the adequate approval of bank reconciliation as an adequate internal control procedure.

2002-05 USE OF RESTRICTED FUNDS

STATEMENT OF CONDITION:

As of June 30, 2002, the Municipality used funds arising from legislative resolutions and other local grants to finance the operations of the general fund and fulfill its current cash needs.

However, such funds were earmarked for specific projects and therefore, should not be used for other purposes.

RECOMMENDATION:

The general fund should promptly reimburse amounts borrowed from the legislative resolutions and execute the projects for which they were awarded.

2002-06 INTER-FUNDS TRANSACTIONS

STATEMENT OF CONDITION:

The Municipality does not maintain adequate internal control over inter-funds transactions. Cash transferred between funds is recorded as revenue in the receiving fund and as expenditure in the disbursing fund. Several adjustments are

Municipality of Villalba

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made to reconcile such inter-funds transactions and properly account for these transfers as inter-funds receivable or payable.

RECOMMENDATION:

We recommend that adequate control procedures be established to assure proper accountability of inter-funds transactions on a timely monthly basis. These procedures should be designed to properly segregate cash transferred on a loan basis from cash that represents revenue to the program since these transactions have different accounting treatment for financial statement presentation.

2002-07

INVESTMENTS

STATEMENT OF CONDITION:

The Municipality's Collection Division did not maintain an investment register which summarizes the transactions related to the investment accounts (certificates of deposits and saving certificates). The register shall provide sufficient information to determine interest earned and what kind of investment is more productive to the Municipality.

CRITERIA:

The Municipality's current accounting system does not comply with the requirements established in Chapter V, Section (5), of the Regulations on Basic Standards for the Municipalities of Puerto Rico, such sections provides:

"The Finance Director or his authorized representative shall keep a record for the control of said investments. The information provided in said

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record shall be used by the Finance Director to make a daily analysis of the balance of the funds and the investments made in order to determine at any given moment the need to liquidate the funds invested or the convenience of continuing to invest. Said investment record shall be kept by type to investment, stating among other things, the date of acquisition, number of security issued, name of bank, total amount of investment, maturity date, interest rate, interest received, increase in investment, balance of investment and date of liquidation.”

RECOMMENDATION:

All investments account shall be included in an investment register. Also, such register shall be reconciled periodically, and all reconciling differences must be investigated and adjusted, accordingly. Also, actual records shall be improved in order to adequately disclose the requirements mentioned above.

2002-08 PERSONNEL FILES AND PAYROLL RELATED PROCEDURES

STATEMENT OF CONDITION:

As part of our payroll test, we selected a sample of 40 personnel files. The following will summarize the deficiencies noted:

- In 8 (20%) of the sample selected, personnel files were not available for our examination.
- In 14 (44%) of the items examined, Federal Form I-9 was missing or incomplete

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- In 28 (88%) of the items examined, "Hacienda Form 499/R4" was missing or incomplete.
- In 7 (22%) of the items examined, copy of the social security card was missing.
- In 10 (31%) of the items examined, the good behavior certificate was missing.
- In 32 (100%) of the items examined, the medical exam requirement was missing.
- In 20 (63%) of the items examined, sign job description was missing.
- In 3 (9%) of the items examined, personal history was missing.
- In 8 (25%) of the items examined, payroll deduction authorization for medical plan was missing.
- In 28 (88%) of the items examined, birth certificate was missing.
- In 22 (69%) of the items examined, Drug & Alcohol Policy Certificate was missing.
- In 17 (55%) of the items examined, Evaluation and Performance Report was missing.
- In 2 (6%) of the items examined, the employees were working for more than six years on a contract basis.

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- The Municipality could not provide us the eligible employee register for our examination.

RECOMMENDATION:

The Municipality should implement a checklist to be used for each employee to assure completeness of the required documentation and perform periodic follow-up procedures in order to update such files.

2002-09 LONG-TERM DEBT

STATEMENT OF CONDITION:

The Municipality does not maintain adequate records of its outstanding long-term obligations, and consequently, solely relies on the notification from the Government Development Bank for Puerto Rico to acknowledge and record the balance of the outstanding debt and the amounts needed to fund its debt service.

RECOMMENDATION:

The Municipality should design a system and establish adequate procedures to maintain accounting records of its outstanding long-term obligations. These records will be used to verify the correctness of the amounts informed by the CRIM for the Municipality's Debt Service Fund under the custody of the Government Development Bank for Puerto Rico and the outstanding balance of the long-term debt.

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2002-10 ACCOUNTS PAYABLE AND ENCUMBRANCES

STATEMENT OF CONDITION:

Under the Municipality's current accounting system, there is no adequate segregation between items representing actual accounts payable and those representing encumbrances due to the fact that the liability is recognized when the purchase order is issued.

RECOMMENDATION:

The Municipality should establish procedures to clearly distinguish between encumbrances and amounts actually owned for goods and services received at year-end. Generally accepted accounting principles in the United States of America for governments require that purchase orders issued for which the goods or services have not been received at year end be reported as an encumbrance, while the goods or services received but not paid at year end be recorded as a liability.

2002-11 BIDDING PROCEDURES

As part of our procurement procedures test, we selected ten files out of ten bids performed during the fiscal year. The following summarize the exceptions noted:

I. GENERAL BID 2001-2002

STATEMENT OF CONDITION I:

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Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

Adjudging a bid to a purveyor that his name does not appear in the minute of the delivery of the proposals. Such situation occurs in one occasion. Item # 1 "Materiales de Oficina".

CRITERIA I:

Article 10.007 (b) - Quotation or Bid correction and exactness in its part (b) Bids, of Law 81 mentioned that all expedient should contain evidence or documentation required by this or any other law or regulation that govern the fiscal and administrative municipal procedures, including, without the intent of a limitation, evidence of the internal pre-audit and the realized payments.

RECOMMENDATION I:

Revisions of all acts of the meetings of the Board of Bid by a person independent to the person that prepared the acts, and assure that those acts contain all the proposals accepted during such meeting.

STATEMENT OF CONDITION II:

On the document "Certificacion sobre Aceptacion de Adjudicacion de Subasta" on its eight part of the terms and conditions omits the items of derivation of funds, through which budgeted funds are consigned within the current fiscal year. The omission of such budget items, could cause, that such necessary quantities were not consigned within current the fiscal year. This situation occurs in eighteen (18) items adjudged of the thirty-two (32) items total representing fifty-six percent (56%) of the occasions.

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Schedule of Findings and Questioned Costs

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Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

CRITERIA II:

Article 8.004 (b) Disbursement of Funds of Law 81, mentioned that can not be spend or appropriate in the current fiscal year any dollar amount that exceed the assignation and the authorized funds by a ordinance or resolution for such year. Neither can able to compromise by any manner, the Municipality in any contract or negotiation for the future payments of the quantities that exceeds the assignments and the funds.

RECOMMENDATION II:

Once the bid is adjudge, simultaneously the items of derivations of funds must be assign.

STATEMENT OF CONDITION III:

The bid was adjudge and the document "Certificación Sobre Aceptación de Adjudicacion de Subasta" was sign by both parties without receiving all the required government debt certifications from those purveyors. This situation occurs in thirteen (13) items adjudged of the thirty-two (32) items total representing forty-one percent (41%) of the occasions.

CRITERIA III :

Article 10.006 (a) Functions and Obligations of the Board (a) Criteria of Adjudging of Law 81 mention that the Board should adjudges taking in consideration that the proposals must be in conformance to the specifications, the delivery terms, the ability of the bidder to realize and comply with the contract, the economic responsibility, it's reputation and commercial integrity, quality of

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the equipment, product or service and any others conditions that be included in the bidder proposal.

RECOMMEDATION III :

Once the bid is adjudge, all the required certifications must be checklist.

Industrial Building Design for the Development of Beans Processing Regional Complex Bid

STATEMENT OF CONDITION I:

The notification of ad judgment sent to the purveyor do not included as a requirement the certifications of filling of tax return (model sc 2888) neither the certification of debt from the Department of Labor and Human Resources.

CRITERIA I:

Article 10.001(b) - Quotation or Bid correction and exactness in it's part (b) Bids, of Law 81 mentioned that all expedient should contain evidence or documentation required by this or any other law or regulation that govern the fiscal and administrative municipal procedures, including, without the intend of a limitation, evidence of the internal pre-audit and the realized payments.

RECOMMENDATION I:

Once the bid is adjudge, all the required certifications must be checklist.

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

Bid #

STATEMENT OF CONDITION II:

The checklist to verify certifications received by the purveyors, do not mentioned the delivery date for the documents.

CRITERIA II:

Article 10.006(a) Functions and Obligations of the Board (a) Criteria of Adjudging of Law 81 mention that the Board adjudges taking in consideration that the proposals must be in conformance to the specifications that delivery terms, the ability of the bidder to realize and comply with the contract, the economic responsibility, it's reputation and commercial integrity, quality of the equipment, product or service and any others conditions that be included in the bidder proposal.

RECOMMENDATION II:

Once the bid is adjudge, all the required certifications must be checklist.

Bid #

STATEMENT OF CONDITION:

The event that the purveyors to whom the bid was originally adjudge, but not was accepted, never was documented on the minutes of the Board of Bid.

Municipality of Villalba

Schedule of Findings and Questioned Costs

June 30, 2002

Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

CRITERIA:

Article 10.007 (b) -- Quotation or Bid correction and exactness in it's part (b) Bids, of the Law 81 mention that all expedient should contain evidence or documentation required by this or any other law or regulations that govern the fiscal and administrative municipal procedures, including, without the intend of a limitation, evidence of the internal pre-audit and the realized payments.

RECOMMENDATION:

Revision of all the acts of the meetings of the Board of Bid by someone independent to the person preparing it, and assure that the minutes contain all the events as they occurred during such meeting.

Bid #

STATEMENT OF CONDITION:

The checklist show the certifications required as received, but they don't physically appear on the purveyor file, however the Bid was adjudge.

CRITERIA:

Article 10.007 (b)-- Quotation or Bid correction and exactness in it's part (b) Bids, of Law 81 mention that all expedients should contain evidence or documentation required by this or any other law or regulation that govern the fiscal and administrative municipal procedures, including, without the intend of a limitation, evidence of the internal pre-audit and the realized payments.

Municipality of Villalba

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RECOMMENDATION:

Revision of the checklist of the received certifications from the purveyors by someone independent to the person requesting and receiving during of the proposal on the meeting of the Board of Bid.

Digger 4x4 Bid

STATEMENT OF CONDITION:

The Bid was adjudged, but neither the check, money order, Municipal Collector Receipt nor the bid bond appear on the proposal files.

CRITERIA:

Article 10.006(a) Functions and Obligations of the Board (a) Criteria of Adjudging of Law 81 mention that the Board adjudges taking in consideration that the proposals must be conformance to the specifications the delivery terms, the ability of the bidder to realize and comply with the contract, the economic responsibility, it's reputation and commercial integrity, quality of the equipment, product or service and any others conditions that be included in the bidder proposal.

RECOMMENDATION:

Revise that all the required bails from the purveyors be received by a person independent to the person that received the proposals during the delivery in the Municipality.

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ALL BIDS:

STATEMENT OF CONDITION:

The letter to notify the bid adjudge to all the purveyors has not been sent by certified mail. They only sent such not certified letters to the purveyors receiving the Bid adjudge, not to all purveyors as required by law.

CRITERIA:

Article 10.006(a) Functions and Obligations of the Board (a) Criteria of Adjudging of Law 81 mention that the adjudging of a Bid will be notified to all the purveyors by certified mail.

RECOMMENDATION:

Revision that all the Bid adjudge letters must be sent to all the purveyors by certified mail as required by Law 81.

OVERALL RECOMMENDATION:

The Municipality should properly document the procedures followed in the evaluation of the quotations and in the final determination. The method of documentation shall be by the preparation of a comparison analysis, especially when the auction contains different items. The Municipality should implement a checklist to be used for each auction file to assure completeness of the required documentation.

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Section II - Findings related to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards of the United States of America (GAGAS)

2002-12 CASH DISBURSEMENTS-GENERAL ACCOUNT

STATEMENT OF CONDITION:

As part of our test of cash disbursements during the year, we selected a sample of 40 checks from the general account out of 1,836. The following exceptions were noted:

- Twenty-three (23) items of the sample examined require bids or quotes. In 8 (35%) of them no bid or quote were available on the files.
- In 6 (15%) of the items examined, one or more signatures were missing from the disbursement voucher or the dates do not follow the required sequenced.
- In 19 (48%) of the items examined, the authorized requisition forms do not appear as part of the disbursement voucher.
- In 1 (3%) of the items examined, the authorized pre-audit forms do not appear as part of the disbursement voucher.
- In 1 (3%) of the items examined, the invoices do not appear as part of the disbursement voucher.
- In 2 (5%) of the items examined, the prices of the invoices were manually changed.
- In 32 (80%) of the items examined, the required employee

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certification do not appear as part of the disbursement voucher.

- In 30 (75%) of the items examined, the required vendor certification required do not appear as part of the disbursement voucher.

CRITERIA:

According to the revised Regulation on Basic Standards for the Municipalities of Puerto Rico, the pre-auditing unit should verify the documents correctness in all of its parts and that the transaction is in order pursuant to the correct legislation, ordinances, resolutions, contracts and regulations. Once everything is found to be in order, the document shall be certified as pre-audited and shall be sent for the approval of the Finance Director. In addition, of the aforementioned regulation, the vouchers, all cancelled checks and any other document, that justifies a payment, shall be filed by the Finance Director to be audited by the Puerto Rico Comptroller's Office or any other agency as required by law.

RECOMMENDATION:

The Municipality should improve the pre-audit procedures of the disbursement vouchers to assure compliance with the prescribed procedures. In addition, the Municipality should follow the prescribed procedures outline in the municipal purchasing manual for the acquisition of goods and services.

The Municipality should enforce strict compliance with the procedures prescribed by the revised regulations on Basic Standards for the Municipalities of Puerto Rico during the process of acquisition of materials and supplies,

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equipment, and construction and service contracts.

2002-13 CASH DISBURSEMENTS-OTHERS ACCOUNTS

STATEMENT OF CONDITION:

As part of our test of cash disbursements during the year, we selected a sample from all others accounts. The following exceptions were noted:

- Crime Victims (account number 127-010904) (Federal Funds) (4 disbursement selected out of 19)

In 4 (100%) of the items examined, the general ledger account number were missing.

In 1 (25%) of the items examined, the required employee certification does not appear in the payment voucher.

- Department of Labor (account number 127-009906) (two disbursements selected)

In 2 (100%) of the sample selected, the payment vouchers were not available for our examination.

- Resoluciones Conjuntas (account number 127-013075) (State Funds) (9 disbursements selected out of 13)

In 1 (11%) of the items tested, an authorized requisition was not available.

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In 1 (11%) of the items tested, a pre-authorized audit form was missing.

In 1(11%) of the items tested, the general ledger account number was missing.

In 1 (11%) of the items tested, the quotations were not available.

In 7 (78%) of the items tested, the employee certification were missing.

In 1 (11%) of the items tested, the vendor certification was missing.

In 3 (33%) of the items tested, the voucher's dates were missing or not follow the required sequence.

In 1 (11%) of the items tested, the disbursement voucher was not canceled.

- Resoluciones Conjuntas (account number 127-013458) (State Funds) (11 disbursement selected out of 52)

In 1 (9%) of the items tested, an authorized requisition form was missing.

In 1 (9%) of the items tested, the pre-authorized audit form was missing.

In 1 (9%) of the items tested, the purchase orders was missing.

In 1 (9%) of the items tested, the vendor's invoice was missing.

In 1 (9%) of the items tested, the general ledger account number was missing.

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In 1 (9%) of the items tested, the quotations were missing

In 11 (100%) of the items tested, the employee certification was missing.

In 2 (18%) of the items tested, the vendor's certification was missing.

In 2 (18%) of the items tested, the voucher's dates were missing or did not follow the required sequence.

In 7 (64%) of the items tested, the disbursement voucher was not canceled.

- Proyecto Mejoras Carretera 149 (account number 127-011048) (State Funds) (2 disbursements selected out of 2)

In 2 (100%) of the items tested, the general ledger account number was missing.

In 2 (100%) of the items tested, the employees certification was missing.

In 1 (50%) of the items tested, the voucher's date was missing or not follow the required sequence.

- Campamento de Verano (account number 127-013253) (State Funds) (1 disbursements selected out of 1)

In 1 (100%) of the items tested, the employee certification was missing.

In 1 (100%) of the items tested, disbursement voucher was not canceled.

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- Procesador de Granos - EDA (account number 127-013296) (Matching for Federal Funds) (8 disbursements selected out of 8)

In 2 (25%) of the items tested, an authorized requisition form was missing.

In 1 (13%) of the items tested, the pre-authorized audit form was missing.

In 7 (88%) of the items tested, the general ledger account number was missing.

In 3 (38%) of the items tested, the employee certification was missing.

In 2 (25%) of the items tested, the voucher's date were missing or not follow the required sequence.

- Comunidades Especiales (account number 127-013474) (State Funds) (17 disbursement selected out of 17)

In 1 (6%) of the items examined, the authorized requisition form was missing.

In 6 (35%) of the items examined, the authorized pre audit form do not appear as part of the disbursement voucher.

In 4 (24%) of the items examined, the general ledger account number was missing.

In 1 (6%) of the items examined, the quotations were missing.

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In 9 (53%) of the items examined, the required employee certification was missing.

In 6 (35%) of the items examined, the voucher's dates were missing or not follow the required sequence.

CRITERIA:

Revised Regulation on Basic Standards for the Municipalities of Puerto Rico requires that disbursements vouchers, canceled checks or any other documents supporting a disbursement should be filed by the Finance Director as evidence for future audits.

OMB Circular A-87 states that proper documentation of disbursements is necessary to support its allowability and accounting distribution.

RECOMMENDATION:

The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
All Programs	<p>All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such. A letter at the end of the finding name referred to the type of compliance requirement as per OMB Circular A-133 Compliance Supplement.</p> <p>2002-14 EQUIPMENT AND REAL PROPERTY MANAGEMENT (F) (MW)</p> <p>STATEMENT OF CONDITION:</p> <p>The Municipality is not maintaining adequate property records that provide all the information required by the federal regulations. Property records maintained by the federal programs only included limited information, if any.</p> <p>No physical inventory of property and equipment held at the Municipality, has been performed during the last two 2 years.</p> <p>CRITERIA:</p> <p>The Common Rule, 45 CFR Part 92, Subpart C, requires that property records shall include, the source of property, acquisition date, percentage of federal participation in the property and any disposition data, including the date of disposal and sale price.</p>	

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<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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CAUSE:

The Municipality is not monitoring compliance with federal regulations regarding property management.

EFFECT:

The Municipality may not be adequately safeguarding or using for authorized purposes property acquired with federal funds.

RECOMMENDATION:

The federal programs should include all required information on property records to adequately safeguard all property and must assure that it is used solely for authorized purposes. Then, the Municipality should strength its monitoring procedures in order to ascertain compliance with federal regulations regarding property management.

(See finding no . 2002-01 of the Section II of the Schedules of Findings and Questioned Costs)

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Vouchers CFDA 14.871	2002-15 ALLOWABLE COSTS / COST PRINCIPLES (B) STATEMENT OF CONDITION:	

As part of our test of cash disbursements during the year, we selected a sample of 27 disbursements out of 1,088 (23 HAP disbursements and 4 administrative disbursements). The following instances related to the adequacy of supporting documents were noted:

In 4 (15%) of the items tested, the pre-authorized audit form was missing.

In 27 (100%) of the items tested, the general ledger account number was missing.

In 3 of 4 (75%) of the items tested, the employee certification was missing.

In 2 of 4 (50%) of the items tested, the vendor's certification was missing.

In 1 (4%) of the items tested, the voucher's date was missing.

In 20 (74%) of the items tested, the voucher's dates

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<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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not follow the required sequence.

CRITERIA:

OMB Circular A-87 states that proper documentation of disbursements is necessary to support its allowability and accounting distribution.

CAUSE:

The Municipality has not implemented adequate internal controls to provide reasonable assurance that only documented, authorized and allowable costs are charge to federal programs.

EFFECT:

Inadequate documentation could lead to unauthorized or unallowable payments.

RECOMMENDATION:

The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.

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Summary Schedule of Prior Years Findings and Questioned Costs

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Vouchers CFDA 14.871	2002-16 CASH MANAGEMENT (C) STATEMENT OF CONDITION: In three months the HAP payments were done after five days of receiving the money transfer from HUD. CRITERIA: Federal Regulation requires that when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. RECOMMENDATION: In accordance with Federal Regulations, the Municipality should estimate the use of federal funds as closely as possible to the actual disbursements.	
Section 8 Housing Choice Vouchers CFDA 14.871	2002-17 ELEGIBILITY (E) STATEMENT OF CONDITION: The following instances were noted in which required supporting documents were not available in tenants files, out of 26 files tested:	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	Signed application form filled out during the initial interview:	
	Not signed	4
	Not found	6
	Signed release forms to allow the PHA to obtain information form third parties	2
	Federally-prescribed general release form for employment verification	16
	Signed Privacy Act Notice	16
	Income Eligibility Verification	2
	Family income and composition was not reexamine at least once in a year	4
	Reported family annual income	6
	Value of assets	8
	Social Security Card	3

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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CRITERIA:

The 24 CFR §5.230, §5.609 and §982.516 established that as a condition of admission or continued occupancy the tenant must provide necessary information, documentation and releases to verify income eligibility.

CAUSE:

The Municipality did not maintain adequately supported and organized files or may not be obtaining the required documentation to adequately validate the participant's eligibility. The Municipality has not established clear procedures to checklist all necessary information.

EFFECT:

The Municipality may be qualifying tenants that do not qualify with eligibility requirements.

RECOMMENDATION:

The Municipality should designed and implement adequate checklist procedures to ascertain compliance with federal regulations regarding eligibility requirements. The Municipality should also adopt uniform procedures to file

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<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	such documents in the participant's files.	
Section 8 Housing Choice Vouchers CFDA 14.871	2002-18 REPORTING (L) STATEMENT OF CONDITION: The amounts submitted on the year-end statement (form HUD 52681) was not completely accurate neither on the Approved Budget Estimates (column a) nor the HA Actual Total (column b). CRITERIA: The 24 CFR Section 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. CAUSE: The Municipality has not implemented adequate internal controls procedures to provide reasonable assurance that amounts reported to HUD on the year-end statement are the current amounts for the year.	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>EFFECT:</p> <p>Amounts reported to HUD are not corrected, including a reporting underpayment of \$24,131.</p> <p>RECOMMENDATION:</p> <p>The Municipality should amend and re-submit to HUD the affected report.</p>	
Section 8 Housing Choice Vouchers CFDA 14.871	<p>2002-19 SPECIAL TEST AND PROVISIONS (N)</p> <p>STATEMENT OF CONDITION;</p> <p>The Municipality does not have an administrative plan in which cleared reasonable rent is determine.</p> <p>The Municipality does not have procedures to obtain and review utility rate data and utility allowance each year.</p> <p>The Municipality does not maintain an HQS Quality Control Register.</p> <p>CRITERIA:</p> <p>The 24 CFR §982.507 states that 'the PHA may not approve a lease until the PHA determines that the initial rent</p>	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>owner is a reasonable rent.” “The rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units.” The Municipality must use the fair market rent (FMR) for the comparison.</p> <p>The 24 CFR §982.517 states that “a PHA must review its utility allowances each year, and must revise its allowance for utility category if there have been a change of 10% or more in the utility rate since the last time the utility allowance schedule was revised.”</p> <p>The 24 CFR §982.404 and 982.406 requires an HQS Quality Control Register.</p> <p>CAUSE:</p> <p>The Municipality is not monitoring compliance with federal regulations regarding reasonable rent, utility allowance and HQS.</p> <p>EFFECT:</p> <p>Non compliance with federal compliance requirements.</p>	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>RECOMMENDATION:</p> <p>The Municipality should establish procedures to ascertain that the rent is reasonable and the utility rate data and utility allowance is review. The Municipality should establish a HQS Quality Control register.</p>	
Community Development Block Grant CFDA 14.228	<p>2002-20 ALLOWABLE COSTS / COST PRINCIPLES (B)</p> <p>STATEMENT OF CONDITION:</p> <p>As part of our test of cash disbursements during the year, we selected a sample of 21 disbursements out of 119. The following instances related to the adequacy of supporting documents were noted:</p> <p>In 4 (17%) of the items tested, the pre-authorized audit form was missing.</p> <p>In 8 (35%) of the items tested, the general ledger account number was missing.</p> <p>In 1 (4%) of the items tested, the canceled check was not available.</p> <p>In 14 (61%) of the items tested, the employee</p>	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	certification was missing.	
	In 6 (26%) of the items tested, the vendor's certification was missing.	
	In 11 (48%) of the items tested, the voucher's dates were missing or not follow the required sequence.	
	In 7 (30%) of the items tested, the certification for credit availability was missing.	
	In 1 (4%) of the items tested, the purchase order was missing.	
	In 3 (13%) of the items tested, the general ledger account number was missing.	
	In 1 (4%) of the items tested, the canceled check was missing.	
	In 1 (11%) of the items tested, the disbursement voucher was not canceled.	

CRITERIA:

OMB Circular A-87 states that proper documentation of disbursements is necessary to support its

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Summary Schedule of Prior Years Findings and Questioned Costs

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	allowability and accounting distribution	
	CAUSE: The Municipality has not implemented adequate internal controls to provide reasonable assurance that only documented, authorized and allowable costs are charge to federal programs.	
	EFFECT: Inadequate documentation could lead to unauthorized or unallowable payments.	
	RECOMMENDATION: The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.	
Community Development Block Grant CFDA 14.228	2002-21 CASH MANAGEMENT (C)	
	STATEMENT OF CONDITION: The Municipality has not established effective cash management procedures. The Program has been drawdown monies for which subsequent disbursements have passed	

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<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>more than three days. In one occasion it takes as long as 71 days. This situation occurs in 18 out of 20 disbursements examined.</p> <p>CRITERIA:</p> <p>The OMB requires that grantee's cash management system should include administrative procedures to minimize the elapsing time between the transfer of federal funds and their related disbursement.</p> <p>Federal Regulation requires that grantees shall conform to the standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the Program's immediate cash needs.</p> <p>RECOMMENDATION:</p> <p>In accordance with Federal Regulations, the Municipality should estimate the use of federal funds as closely as possible to the actual disbursements.</p>	
Communities Facilities Loans Grant CFDA 10.766	<p>2002-22 ALLOWABLE COSTS / COST PRINCIPLES (B)</p> <p>STATEMENT OF CONDITION:</p>	

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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As part of our test of cash disbursements during the year, we selected a sample of 1 disbursement out of 1. The following instances related to the adequacy of supporting documents were noted:

In 1 (100%) of the items tested, the general ledger account number was missing.

In 1 (100%) of the items tested, the employee certification was missing.

CRITERIA:

OMB Circular A-87 states that proper documentation of disbursements is necessary to support its allowability and accounting distribution

CAUSE:

The Municipality has not implemented adequate internal controls to provide reasonable assurance that only documented, authorized and allowable costs are charge to federal programs.

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Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>EFFECT:</p> <p>Inadequate documentation could lead to unauthorized or unallowable payments.</p> <p>RECOMMENDATION:</p> <p>The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.</p>	
Communities Facilities Loans Grant CFDA 10.766	<p>2002-23 DAVIS-BACON ACT (D)</p> <p>SATEMENT OF CONDITION:</p> <p>The construction contract does not contain the Davis-Bacon Act clause regarding the prevailing wage rate requirement.</p> <p>CRITERIA:</p> <p>The Davis-Bacon Act requires that the construction contracts include a clause referring to compliance with the prevailing wage rate. In addition, OMB circular A-133 states that proper documentation is necessary to support allowability and accounting distribution of costs.</p>	

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Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>CAUSE:</p> <p>The Municipality does not review key clauses for contracts which compromise federal funds.</p> <p>EFFECT:</p> <p>Noncompliance with David-Bacon Act leads to non-allowable costs.</p> <p>RECOMMENDATION:</p> <p>The Municipality should strengthen its internal control procedures in order to assure compliance with applicable federal regulation.</p>	
Communities Facilities Loans Grant CFDA 10.766	<p>2002-24 DAVIS-BACON ACT (D)</p> <p>SATEMENT OF CONDITION:</p> <p>The Municipality does not maintain adequately register at all certified payroll submitted by contractors or sub-contractors.</p> <p>CRITERIA:</p> <p>Non-federal entities shall include in their</p>	

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347 which includes the required statement of compliance (OMB No. 1215-0149).

Submitted payrolls shall be examined to assure compliance with the labor standards. Also, a pre-construction conference must be held to explain labor standards.

CAUSE:

Procedures, if any, established by the Municipality to assure compliance with Davis-Bacon Act are not complied with.

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Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>EFFECT:</p> <p>Noncompliance with David-Bacon Act leads to non-allowable costs.</p> <p>RECOMMENDATION:</p> <p>The Municipality should design and implement control procedures in order to assure compliance with applicable federal regulations.</p>	
Federal Transit Administration PR-1-013-76 (2)	<p>2002-25 DAVIS-BACON ACT (D)</p> <p>SATEMENT OF CONDITION:</p> <p>The Municipality does not maintain adequately register at all certified payroll submitted by contractors or sub-contractors.</p> <p>CRITERIA:</p> <p>Non-federal entities shall include in their construction contracts subject to Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contacts Governing Federally Financed and</p>	

Municipality of Villalba

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>Assisted Construction"). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347 which includes the required statement of compliance (OMB No. 1215-0149).</p> <p>Submitted payrolls shall be examined to assure compliance with the labor standards. Also, a pre-construction conference must be held to explain labor standards.</p> <p>CAUSE:</p> <p>Procedures, if any, established by the Municipality to assure compliance with Davis-Bacon Act are not complied with.</p> <p>EFFECT:</p> <p>Noncompliance with David-Bacon Act leads to non-allowable costs.</p>	

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Summary Schedule of Prior Years Findings and Questioned Costs

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Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	<p>RECOMMENDATION:</p> <p>The Municipality should design and implement control procedures in order to assure compliance with applicable federal regulations.</p>	
Federal Transit Administration PR-1-013-76 (2)	<p>2002-26 REPORTING (L)</p> <p>STATEMENT OF CONDITION:</p> <p>Required progress reports were not available for our examination.</p> <p>CRITERIA:</p> <p>Article 17 "Reports and Records" of signed contract with Puerto Rico Highway and Transportation Authority requires the submission of progress reports by January 31 and July 31 describing the activities undertaken during the three months period preceding it.</p> <p>CAUSE:</p> <p>The Municipality has not implemented adequate internal controls to comply with contract requirements.</p> <p>EFFECT:</p>	

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June 30, 2002

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
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Noncompliance with grant agreement.

RECOMMENDATION:

The Municipality should strengthen its internal control procedures in order to assure compliance with applicable federal regulation.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

Audit Year: June 30, 2002

Date: December, 17, 2002

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-01 General Fixed Asset</p>	<p>A letter was sent to the person in charge of the property with the commitment to update the inventory of all the municipal property. It was instructed to make a periodical physical inventory of the municipal property. In addition we are evaluating the steps to follow in order to implement the GASB #34.</p>	<p>It was partially accomplished. At this moment the person in charge of the property in coordination with personnel from the Office of Municipal Affairs (OCAM), is bringing up to date the Municipal property inventory.</p>
<p>Finding 2002-02 Accounting System.</p>	<p>At this moment the municipality utilize the mechanized system from OCAM that accomplished The General Accepted Accounting Principles (GAAP). We have been in touch with the OCAM personnel to keep up tracking the use of the accounting system. It was created the Accounting Head position (ordinance #51, 2000-2001) in order to help improve the procedures in this area.</p>	<p>Accomplished. It was hired an Accounting Head and at this moment the deficiencies are being corrected.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTION	RESULTS
<p>Finding 2002-06 Interfund Transactions.</p>	<p>The Finance Director and the Accounting head were oriented that they must follow the General Accepted Accounting Principles in all the transactions between funds. Each money transfer must be registered as an account payable for the recipient and as an account receivable for the lender.</p>	<p>Accomplished. This situation was corrected and all the transactions are registered following GAAP.</p>
<p>Finding 2002-07 Investment</p>	<p>The Finance Director and the Municipality Collection Division were oriented in order to maintain a complete Investment register that provides sufficient information.</p>	<p>Partially Accomplished</p>
<p>Finding 2002-08 Personnel Files And Payroll Related Procedures.</p>	<p>A specialized person was hired to help the Human Resources Division correct the deficiencies found. An evaluation of each file has been made to collect all the documents required in each file.</p>	<p>Partially Accomplished. During this year the Internal Audit Division make an audit of the Personnel Files, and at this moments we are implementing the recommendation in order to correct the deficiencies.</p>
<p>Finding 2002-09 Long Term Debt.</p>	<p>The Finance Director and the Accounting head were oriented that they must correct the deficiencies founding in the Long Term Debts.</p>	<p>Partially Accomplished. This is one of the priorities to actualize the Long Term Debts Register.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-03 Operating Deficit of General Fund.</p>	<p>When the budget for the past two year were approved we took certain good administrative policies and assigned \$80,000 during 2001-2002 and \$70,000 during 2002-2003 to amortize the accumulated deficit. Also at this moment a monthly analysis of the budget has been prepared in order to avoid operating deficit during the current year.</p>	<p>Partially Accomplished</p>
<p>Finding 2002-04 Cash And Bank Accounts.</p>	<p>It was hired an Accounting Head that is supervising the banking reconciliation and establishing better procedures to improve a same.</p>	<p>Accomplished. The Banking Reconciliation are being prepare monthly.</p>
<p>Finding 2002-05 Use Of Restricted Funds.</p>	<p>A letter was sent to the Financial Director explaining that the money from the Legislative Resolution should be reimburse in the Resolutions and used to perform the projects approved.</p>	<p>Accomplished. At this moment the Legislative Resolutions are being analyzed in order to reimburse the money utilized.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-10 Accounts Payable And Encumbrances.</p>	<p>The Financial Director was oriented regards the Account Payable Encumbrances procedures and to help him in this matter, an accounting head was hired.</p>	<p>Accomplished. The OCAM System provides the reports necessary to separate the accounts payables from the Encumbrances.</p>
<p>Finding 2002-11 Bidding Procedure</p>	<p>We will implement that recommendation in order to improve the method of documentation and assure completeness.</p>	<p>Partially Accomplished.</p>
<p>Finding 2002-12 Cash Disbursements-General Account</p>	<p>It was required to the person that had the faculty to pre-intervene all the payments that she must comply with her responsibilities. In addition it were created the Pre-intervention Head and the Accounting Head to supervise and improve the process.</p>	<p>Accomplished.</p>
<p>Finding 2002-13 Cash Disbursements-Others Accounts</p>	<p>It was established the control measures that when a payment document before it is authorized, must be evaluated by the pre-intervention officer and authorized before the payment is done. This could avoid irregularities.</p>	<p>Partially Accomplished.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-14 Equipment and Real Property Management</p>	<p>The Financial Director and the person in charge of the Property were instructed to file all the property bought with federal funds in a proper manner in order to comply with the Federal Regulations.</p>	<p>Partially Accomplished.</p>
<p>Finding 2002-15 Allowable Costs/ Cost Principle (A)</p>	<p>We gave instruction to the Section 8 accountant to include the correspondent account number in the cash disbursement instead of the name of the programs. We are going to prepare a form where the employee must sign as receiving the amount in the disbursement. Instructions were given to the payable clerk in order to sign the disbursement as soon as she receives it.</p>	<p>Accomplished</p>
<p>Finding 2002-16 Cash Management</p>	<p>We are going to be more careful in this matter. The HAP payment procedure will start a week earlier in order to comply with the regulations.</p>	<p>Partially Accomplished.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-17 Elegibility</p>	<p>We started a revision of the tenants file to correct this finding. We are going to require a new HUD 9886 every year in the recertification process. Instructions were given to the programs technician to request and document a third party income verification for each participant. We are going to prepare a form in order to identify the participant that are not any more in the programs</p>	<p>Accomplished. We already revised all file to correct this finding</p>
<p>Finding 2002-18 Reporting</p>	<p>It was instructed to the Federal Program Director and Accountant that the information of the financial results of the Program included in the Year end Statement(form HUD 52681) must be complete, correct and exact.</p>	<p>Accomplished.</p>
<p>Finding 2002-19 Special Test and Provisions</p>	<p>A new Administrative Plan is been prepared in which the reasonable rent procedure is going to be establish.</p>	<p>Accomplished. We already has a procedure to obtain and review utility rate data. It is already done a register of quality control was prepared.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-20 Allowable Costs/ Cost Principle (B)</p>	<p>We gave instruction to the Section 8 accountant to include the correspondent account number in the cash disbursement instead of the name of the programs. We are going to prepare a form where the employee must sign as receiving the amount in the disbursement. Instructions were given to the payable clerk in order to sign the disbursement as soon as she receives it.</p>	<p>Partially Accomplished</p>
<p>Finding 2002-21 Cash Management</p>	<p>We are going to be more careful in this matter. The HAP payment procedure will start a week earlier in order to comply with the regulations.</p>	<p>Partially Accomplished</p>
<p>Finding 2002-22 Allowable Costs/ Cost Principle (B)</p>	<p>We gave instruction to the Section 8 accountant to include the correspondent account number in the cash disbursement instead of the name of the programs. We are going to prepare a form where the employee must sign as receiving the amount in the disbursement. Instructions were given to the payable clerk in order to sign the disbursement as soon as she receives it.</p>	<p>Partially Accomplished</p>

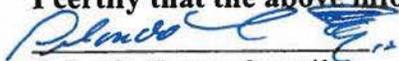
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2002-23 Davis Bacon Act</p>	<p>We know the important of the Davis Bacon Act and we are aware that we have to include this section in our contracts. Instructions were given to the Municipal Secretary to include in each contract the Davis Bacon Act in order to comply with the requirement.</p>	<p>Accomplished</p>
<p>Finding 2002-24 Davis Bacon Act</p>	<p>We designate one person of our Federal programs office to be in charge of the revision of the payrolls of all our projects. We improve the procedure by preparing a file to guarantee the access to the payrolls and the compliance of the requirement.</p>	<p>Accomplished</p>
<p>Finding 2002-25 Davis Bacon Act</p>	<p>We designate one person of our Federal programs office to be in charge of the revision of the payrolls of all our projects. We improve the procedure by preparing a file to guarantee the access to the payrolls and the compliance of the requirement.</p>	<p>Accomplished</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2002-26 Reporting Contribution And Operating Statement.	It was instructed to the Federal Program Director and Accountant that the information of the required progress report must be complete, correct and exact.	Accomplished.

I certify that the above information is correct:


Orlando Torres González
Mayor



ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL
Villalba, Puerto Rico

Oficina del Alcalde

December 17, 2002

Federal Audit Clearinghouse
1201 E, 10th Street
Jefferson, IN. 47132

Dear Officer:

Regarding June 30, 2002 Single Audit Report, the management decide to eliminate findings from years 1997, 1998 and 1999, because we believe that they are not longer valid, this decision was based in the OMB Circular A-133, Section .315 (b)(4) audit findings follow-up that says, "*When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:*

- (i) *Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse;*
- (ii) *The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and*
- (iii) *A management decision was not issued."*

Please let me know if you have any doubt about this matter.

Cordially,


Hon. Orlando Torres Gonzalez
Mayor

Commonwealth of Puerto Rico

Municipality of Villalba



Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

The following schedule contains the findings number, title and corrective action taken of each of the findings included in the Report on Compliance and on Internal Control over Financial reporting Based on an Audit of General-Purpose Financial Statements Performed in Accordance with Government Auditing Standard for the Fiscal Years ended June 30, 2001 and 2000. Under the heading status there will be the following:

- FR- Fully resolved (indicating the corrective action was fully implemented).
- PR- Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-2002).
- NR- Not resolved yet (finding repeated in fiscal year 2001-2002).

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2001-01	General Fixed Assets	NR
2001-02	Accounting System	NR
2001-03	Operating Deficit of General Fund	PR
2001-04	Cash and Bank Accounts	NR
2001-05	Use of Restricted Funds	NR
2001-06	Inter-funds Transactions	NR
2001-07	Personnel Files and Payroll Related Procedures	PR
2001-08	Municipal License Tax	PR
2001-09	Long-term Debt	NR

Commonwealth of Puerto Rico

Municipality of Villalba



Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2001-10	Account Payable and Encumbrances	NR
2001-11	Cash Management	NR
2001-12	Bidding Procedures	PR
2001-13	Year-End Financial Reports	FR
2001-14	Cash Disbursements-General Account	PR
2001-15	Records Retention Requirement -State Funds	PR
2001-16	Cash Disbursements-Other Accounts	PR
2001-17	Budget Expenditures and Encumbrances Prohibitions	FR
2001-18	Single Audit Act	FR
2001-19	Corrective Actions Plans	FR
2000-01	Fixed Assets	NR
2000-02	Accounting System	NR
2000-03	Operating Deficit of General Fund	PR
2000-04	Cash and Bank Accounts	PR
2000-05	Use of Restricted Funds	PR
2000-06	Inter-funds Transactions	NR
2000-07	Investments	NR

Commonwealth of Puerto Rico

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002



<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2000-08	Cash Receipts	PR
2000-09	Cash Disbursements	PR
2000-10	Personnel Files and Payroll Related Procedures	PR
2000-11	Expenditures Analysis	NR
2000-12	Records Retention Requirement - State Funds	PR
2000-13	Municipal License Tax	PR
2000-14	Long-Term Debt	NR
2000-15	Accounts Payable and Encumbrances	NR
2000-16	Cash Management	NR

Commonwealth of Puerto Rico

Municipality of Villalba



Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002

The following schedule contains the findings number, title and corrective action taken of each of the findings included in the Report on Compliance with Requirements Applicable to each Major Federal Financial Assistance Programs and Internal Control over Compliance with OMB Circular A-133 for the Fiscal Years ended June 30, 2001, and 2000. Under the heading status there will be the following:

- FR- Fully resolved (indicating the corrective action was fully implemented).
- PR- Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2001-2002).
- NR- Not resolved yet (finding repeated in fiscal year 2001-2002).

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2001-20	Inadequate Property Records	FR
2001-21	Federal Financial Reports	FR
2001-22	Year-End Settlement Statement	FR
2001-23	Requisition for Partial Payment of Annual Contribution	FR
2001-24	Supporting Data for Annual Contributions Estimates	FR
2001-25	Year-End Settlement Statement	FR
2001-26	Requisition for Partial Payment of Annual Contribution	FR
2001-27	Supporting Data for Annual Contributions Estimates	FR

Commonwealth of Puerto Rico

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002



<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2001-28	Quarterly Reports	FR
2001-29	Quarterly Reports	FR
2000-17	Inadequate Property Records	NR
2000-18	Federal Financial Reports	PR
2000-19	Voucher for Payments of Annual Contribution and Operating Statement	FR
2000-20	Requisition for Partial Payment of Annual Contribution	FR
2000-21	Supporting Data for Annual Contribution	FR
2000-22	Cash Management System	NR
2000-23	Voucher for Payment of Annual Contribution and Operating Statement	FR
2000-24	Federal Management System	PR
2000-25	Requisition for Partial Payment of Annual Contribution	FR
2000-26	Supporting Data for Annual Contribution	FR
2000-27	Cash Management System	NR

Commonwealth of Puerto Rico

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2002



<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2000-28	Cash Management System	NR
2000-29	Cash Management System	NR
2000-30	Disbursements Test (Federal Funds)	NR
2000-31	Cash Management System	NR
2000-32	Cash Management System	NR
2000-33	Cash Management System	NR
2000-34	Cash Management System	NR
2000-35	Quarterly Reports	FR
2000-36	Quarterly Reports	FR
2000-37	Davis - Bacon Act	PR
2000-38	Davis - Bacon Act	PR
2000-39	Quarterly Reports	FR
2000-40	Quarterly Reports	FR
2000-41	Cash Management System	NR

Data Collection Form for Reporting on AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS for Fiscal Year Ending Dates On or After January 1, 2001

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO Federal Audit Clearinghouse 1201 E. 10th Street Jeffersonville, IN 47132

PART I GENERAL INFORMATION (To be completed by auditee, except for Item 7)

1. Fiscal period ending date for this submission
2. Type of Circular A-133 audit
3. Audit period covered
4. Date received by Federal clearinghouse

5. Employer Identification Number (EIN)
a. Auditee EIN
b. Are multiple EINs covered in this report?

6. AUDITEE INFORMATION
a. Auditee name
b. Auditee address
c. Auditee contact
d. Auditee contact telephone
e. Auditee contact FAX
f. Auditee contact E-mail

7. AUDITOR INFORMATION (To be completed by auditor)
a. Auditor name
b. Auditor address
c. Auditor contact
d. Auditor contact telephone
e. Auditor contact FAX
f. Auditor contact E-mail

g. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 8, 9, and 10, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official
Date
Printed Name/Title of certifying official

Signature of auditor
Date

PART I GENERAL INFORMATION - Continued

8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? (Mark (X) one box)
1 Yes - Identify Cognizant Agency in Part I, Item 9 2 No - SKIP to Part II, Item 1

9. Indicate which Federal awarding agency provided the predominant amount of direct funding in fiscal year 2000. (Mark (X) one box) However, if cognizance has been reassigned, see instructions.

- | | | | |
|--|---|---|---|
| 02 <input type="checkbox"/> Agency for International Development | 81 <input type="checkbox"/> Energy | 14 <input type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation |
| 10 <input type="checkbox"/> Agriculture | 66 <input type="checkbox"/> Environmental Protection Agency | 15 <input type="checkbox"/> Interior | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 83 <input type="checkbox"/> Federal Emergency Management Agency | 16 <input type="checkbox"/> Justice | <input type="checkbox"/> Other - Specify: |
| 12 <input type="checkbox"/> Defense | 93 <input type="checkbox"/> Health and Human Services | 17 <input type="checkbox"/> Labor | |
| 84 <input type="checkbox"/> Education | | | |

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report (Mark (X) one box)
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Type of audit report on major program compliance
1 Unqualified opinion 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA SOP 98-3 chapter 10) 1 Yes 2 No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ __ .520(b)) \$ 300,000

4. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

5. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No - SKIP to Item 7

6. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

7. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ __ .315(b)) 1 Yes 2 No

9. Indicate which Federal agency(ies) have current year audit findings related to direct funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to direct funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 02 <input type="checkbox"/> Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 03 <input type="checkbox"/> Institute for Museum Services | 47 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 15 <input type="checkbox"/> Interior | 07 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 16 <input type="checkbox"/> Justice | 59 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 17 <input type="checkbox"/> Labor | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 09 <input type="checkbox"/> Legal Services Corp | | |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the cognizant agency (if identified in Part I, Item 9)

Count total number of boxes marked above and submit this number of reporting packages 2

PART III FEDERAL PROGRAMS - Continued (Page 3 - #1 of 1)

10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR							11. AUDIT FINDINGS		
Federal Agency Prefix ¹	CFDA Number (a) Extension ²		Research and development (b) 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	Name of Federal program (c)	Amount expended (d)	Direct award (e) 1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Major program (f) 1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Type(s) of compliance requirement(s) ³ (a)	Audit finding reference number(s) ⁴ (b)
1	4	.871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8 HOUSING CHOICE VOUCHERS	\$ 322,639 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BCEFLN	2002- 14, 15, 16, 17, 18, 19
1	4	.228	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT / STATE'S PROGRAM	\$ 551,051 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BCF	2002- 14, 20, 21
1	6		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CRIME VICTIMS ASSISTANCE	\$ 31,018 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	F	2002-14
1	6		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 17,782 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	F	2002-14
8	3		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	FEMA 1247 GEORGES	\$ 5,948 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	F	2002-14
2	0		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	RURAL PUBLIC TRANSPORTATION PROJECT UNDER SECTION 5311	\$ 108,844 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	DFL	2002- 14, 25, 26
2	0		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMPLEMENTARY PARATRANSIT SERVICE FOR PERSONS WITH DISABILITIES UNDER SECT	\$ 29,570 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	F	2002-14
9	3	.569	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY SERVICES BLOCK GRANT	\$ 5,105 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	F	2002-14
1	0	.766	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY FACILITIES LOANS AND GRANTS - DIRECT LOAN	\$ 375,013 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	BDF	2002- 14, 22, 23, 24
			1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		
TOTAL FEDERAL AWARDS EXPENDED →					\$ 1,446,970 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS			

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- | | | | |
|------------------------------------|---|--|----------|
| A. Activities allowed or unallowed | F. Equipment and real property management | K. Real property acquisition and relocation assistance | O. None |
| B. Allowable costs/cost principles | G. Matching, level of effort, earmarking | L. Reporting | P. Other |
| C. Cash management | H. Period of availability of Federal funds | M. Subrecipient monitoring | |
| D. Davis - Bacon Act | I. Procurement and suspension and debarment | N. Special tests and provisions | |
| E. Eligibility | J. Program income | | |

⁴ N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A	16	31	46	61
2		17	32	47	62
3		18	33	48	63
4		19	34	49	64
5		20	35	50	65
6		21	36	51	66
7		22	37	52	67
8		23	38	53	68
9		24	39	54	69
10		25	40	55	70
11		26	41	56	71
12		27	42	57	72
13		28	43	58	73
14		29	44	59	74
15		30	45	60	75

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.