

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE VILLALBA

AUDITORIA 2002-2003

30 DE JUNIO DE 2003

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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MUNICIPALITY OF VILLALBA, PUERTO RICO

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

For the year ended June 30, 2003

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, 2003, 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 paragraph, 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 10, 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 inadequacy of 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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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 referred to in the third paragraph 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, 2003, 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 January 22, 2004, 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 reportable conditions 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 \$432,171 after reserves in its general fund as of June 30, 2003, and has had recurring deficiencies of revenues over expenditures before other financing resources during five of its last seven 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.

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

January 22, 2004

License No. 74
Expires December 1, 2004



MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINE BALANCE SHEET
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS
June 30, 2003

	<u>Governmental Fund Types</u>				<u>Accounts Groups</u>		<u>Totals</u> <i>(Memorandum Only)</i>
	<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 (includes \$1,013,840 in certificates of deposits)	\$ 2,984,414	\$ 754,593	\$ -	\$ 1,705,713	\$ -	\$ -	\$ 5,444,720
Cash held with fiscal agent	115,475	-	503,324	130,263	-	-	749,062
Accounts receivable:							
Due from other funds	1,105,524	865,268	-	1,624,999	-	-	3,595,790
Due from other governmental entities	197,139	4,523	-	116,038	-	-	317,700
General Fixed Assets	-	-	-	-	18,503,367	-	18,503,367
Other debits:							
Amount available in Debt Service Fund	-	-	-	-	-	312,524	312,524
Amount to be provided for:							
Retirement of general long-term debt obligations	-	-	-	-	-	879,476	879,476
Payment of amounts advanced from Puerto Rico Treasury Department	-	-	-	-	-	204,911	204,911
Payment of amounts advanced from CRIM	-	-	-	-	-	1,968,585	1,968,585
Payment of long term agreement with Government Development Bank	-	-	-	-	-	6,231	6,231
Retirement of long-term debt with USDA - RD	-	-	-	-	-	1,189,060	1,189,060
Payment of accrued vacations and sick leave	-	-	-	-	-	860,226	860,226
Payment of long term agreement with the Puerto Rico Department of Labor	-	-	-	-	-	111,676	111,676
Payment of claims and judgments	-	-	-	-	-	878,363	878,363
Total assets and other debits	\$ 4,402,551	\$ 1,624,384	\$ 503,324	\$ 3,577,013	\$ 18,503,367	\$ 6,411,052	\$ 35,021,691

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINE BALANCE SHEET
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS
June 30, 2003

	<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	\$ 721,512	\$ 10,695	\$ -	\$ 451,952	\$ -	\$ -	\$ 1,184,159
Due to other funds	2,475,943	673,559	-	446,289	-	-	3,595,791
Due to other governmental entities	400,772	-	-	44,093	-	-	444,865
Deferred volume of business tax	973,459	-	-	-	-	-	973,459
Deferred federal financial assistance revenue	-	-	-	28,066	-	-	28,066
General long-term debt obligations	-	-	190,800	-	-	1,192,000	1,382,800
Advances from Puerto Rico Treasury Department	-	-	-	-	-	204,911	204,911
Advances from CRIM	-	-	-	-	-	1,968,585	1,968,585
Provision for long term agreement with							
Government Development Bank	-	-	-	-	-	6,231	6,231
Long-term debt with USDA - RD	-	-	-	-	-	1,189,060	1,189,060
Accrued vacations and sick leave	-	-	-	-	-	860,226	860,226
Provision for long-term agreement with the							
Puerto Rico Department of Labor	-	-	-	-	-	111,676	111,676
Liability for claims and judgments	-	-	-	-	-	878,363	878,363
Total liabilities	4,571,686	684,254	190,800	970,400	-	6,411,052	12,828,192
Fund equity (deficit) and other credits:							
General fixed assets	-	-	-	-	18,503,367	-	18,503,367
Fund balances:							
Reserved for encumbrances	147,561	-	-	-	-	-	147,561
Reserved for debt service	-	-	312,524	-	-	-	312,524
Reserved for capital projects	115,475	-	-	-	-	-	115,475
Reserved for federal programs and state statutes	-	940,130	-	2,606,613	-	-	3,546,744
Unreserved fund balance (deficit)	(432,171)	-	-	-	-	-	(432,171)
Total fund equity (deficit) and other credits	(169,135)	940,130	312,524	2,606,613	18,503,367	-	22,193,499
Total liabilities, fund equity (deficit) and other credits	\$ 4,402,551	\$ 1,624,384	\$ 503,324	\$ 3,577,013	\$ 18,503,367	\$ 6,411,052	\$ 35,021,691

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS
For the year Ended June 30, 2003

	<u>Governmental Fund Types</u>				Totals <i>(Memorandum Only)</i>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
REVENUES:					
Property taxes	\$ 580,420	\$ -	\$ 166,745	\$ -	\$ 747,165
Volume of business tax	885,902	-	-	-	885,902
Licenses and permits	1,288,948	-	-	-	1,288,948
Intergovernmental revenues	5,643,282	304,183	-	1,249,941	7,197,406
Federal financial assistance	-	595,436	-	2,664,108	3,259,544
Rent of property	39,110	-	-	-	39,110
Interest	16,021	228	4,502	108	20,860
Miscellaneous	70,428	-	-	-	70,428
Total revenues	8,524,112	899,847	171,247	3,914,157	13,509,362
EXPENDITURES:					
General Administration	4,613,834	453,866	-	405,302	5,473,003
Public Safety	539,503	-	-	-	539,503
Public Works	1,086,951	-	-	58,246	1,145,197
Culture and Recreation	372,789	3,820	-	-	376,609
Environmental Control	28,696	-	-	-	28,696
Health	309,951	-	-	-	309,951
Education	-	-	-	-	-
Welfare	3,535	361,615	-	6,521	371,672
Capital Outlays	357,290	153,695	-	3,890,904	4,401,889
Debt Service:					
Payment of principal	189,613	-	176,000	-	365,613
Interest	88,136	-	66,823	44,093	199,053
Total expenditures	7,590,299	972,996	242,823	4,405,066	13,211,184
Excess (deficiency) of revenues over expenditures	933,813	(73,150)	(71,577)	(490,909)	298,178
OTHER FINANCIAL SOURCES (USES):					
Operating transfers from other funds	4,384	845,177	-	-	849,560
Operating transfers to other funds	(845,177)	-	(4,384)	-	(849,560)
Refinancing of debt with CRIM	840,636	-	-	-	840,636
Proceeds from issuance of long-term debt with GDB	230,000	-	-	-	230,000
Advances received from USDA - RD	-	-	-	814,047	814,047
Net other financing sources (uses)	229,843	845,177	(4,384)	814,047	1,884,683
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	1,163,656	772,027	(75,960)	323,138	2,182,861
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(1,332,791)	168,103	388,484	2,283,475	1,507,271
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (169,135)	\$ 940,130	\$ 312,524	\$ 2,606,613	\$ 3,690,132

MUNICIPALITY OF VILLALBA, PUERTO RICO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
ALL GOVERNMENTAL FUNDS TYPES AND ACCOUNT GROUPS
GENERAL AND DEBT SERVICE FUNDS
For the year Ended June 30, 2003

	General Fund			Debt Service		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:						
Property taxes	\$ 868,711	\$ 580,420	\$ (288,291)	\$ 202,484	\$ 166,745	\$ (35,739)
Volume of business tax	804,677	864,594	59,916	-	-	-
Licenses and permits	495,969	1,288,948	792,979	-	-	-
Intergovernmental revenues	5,975,985	5,601,851	(374,134)	-	-	-
Federal financial assistance	-	-	-	-	-	-
Rent of property	15,000	39,110	24,110	-	-	-
Interest	12,406	15,975	3,568	-	4,502	4,502
Miscellaneous	41,452	67,428	25,975	-	-	-
Total revenues	8,214,202	8,458,325	244,124	202,484	171,247	(31,237)
EXPENDITURES:						
General Administration	4,888,791	4,254,243	(634,548)	-	-	-
Public Safety	562,347	534,391	(27,956)	-	-	-
Public Works	1,079,128	970,534	(108,594)	-	-	-
Culture and Recreation	409,810	367,218	(42,592)	-	-	-
Environmental Control	31,773	16,366	(15,406)	-	-	-
Health	335,056	309,951	(25,105)	-	-	-
Education	-	-	-	-	-	-
Welfare	4,000	3,535	(465)	-	-	-
Capital Outlays	520	357,290	356,770	-	-	-
Debt Service:						
Payment of principal	-	189,613	189,613	131,000	176,000	45,000
Interest	-	88,136	88,136	65,948	66,823	875
Total expenditures	7,311,425	7,091,276	(220,148)	196,948	242,823	45,875
Excess (deficiency) of revenues over expenditures	902,777	1,367,049	464,272	5,536	(71,577)	(77,112)
OTHER FINANCIAL SOURCES (USES):						
Operating transfers from other funds	-	4,384	4,384	-	-	-
Operating transfers to other funds	(902,777)	(845,177)	57,600	-	(4,384)	(4,384)
Refinancing of debt with CRIM	-	840,636	840,636	-	-	-
Proceeds from issuance of long-term debt with GDB	-	230,000	230,000	-	-	-
Advances received from USDA - RD	-	-	-	-	-	-
Net other financing sources (uses)	(902,777)	229,843	1,132,620	-	(4,384)	(4,384)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ 0	\$ 1,596,892	\$ 1,596,892	\$ 5,536	\$ (75,960)	\$ (81,496)

See accompanying notes to general purpose financial statements.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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, 2003, 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

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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, 2003, the Debt Service Fund transferred to the General Fund a total of \$4,384 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:

- Encumbrances— represent future expenditures under purchase orders, contracts and other commitments. Generally these

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

committed amounts will become liabilities in future periods as the goods or services are received or performed. At June 30, 2003 the amount reserved for encumbrances was \$147,561.

- General Fund – represents the reservation of amounts to be used for future expenditures for capital projects under contract or commitments. At June 30, 2003 the amount reserved was \$115,475.
- Special Revenue Fund – represents net assets available for specific use under federal or state grant programs. At June 30, 2003, the amount reserved was \$940,130.
- Debt Service – represent net assets available to finance future debt service payments. At June 30, 2003 the amount reserved was \$312,524.
- Capital Project Fund - represents net assets available for specific capital projects under federal or state grant programs. At June 30, 2003, the amount reserved was \$2,606,613.

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, 2003 amounted to approximately \$134,138. The CRIM also deducted \$209,906 for workers compensation insurance covering all municipal employees.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

O. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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

<u>Statement Number</u>		<u>Adoption required in fiscal year</u>
34	Basic Financial Statements -- and Management's Discussion and Analysis-- for State and Local Government	2003-04
37	Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus an amendment of GASB No. 21 and 34	2003-04
38	Certain Financial Statement Note Disclosures	2003-04

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

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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, 2003 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, 2003 is presented below for the general, and debt service funds:

General Fund:

Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)	\$ 8,524,112	\$ 7,590,299
Timing differences:		
Add:		
Current year encumbrances recorded as expenditures for budgetary basis		147,561
Deduct:		
Prior year encumbrances recorded as current year expenditures for GAAP basis		(84,890)
Deduct:		
Non-budgetary items	(65,787)	(170,532)
Payment of "Resultas"	<u> --</u>	<u>(391,161)</u>
Budgetary basis per the Combined Statement of Revenues, Expenditures – Budget and Actual	\$ <u>8,458,325</u>	\$ <u>7,091,276</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

C. LEGAL COMPLIANCE

The Municipality level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

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, 2003 presented in the general long-term debt account group amounted to \$1,898,261 (see note 11).

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

Based on the final settlement, during the year ended June 30, 2003, the amount collected from taxpayers and charges by CRIM of \$5,468,660 exceed the advances received by the Municipality for the same period by \$52,709. Such amount is presented as due from 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 by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1,

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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 2002-03 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 \$5,707,648 in the general fund, special revenue fund and capital projects fund were fully collateralized at June 30, 2003.

The deposits at GDB of approximately \$115,475 that are restricted for capital projects in the general fund, and the \$503,324 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

For the year ended June 30, 2003

As of June 30, 2003, the Municipality's cash and cash equivalents are classified by credit risk category as shown below:

Description	Carrying Amount	Bank Balance	Credit Risk Category		
			1	2	3
<u>General Fund:</u>					
Certificates of deposit due on July 27, 2003 at an interest rate of 1.65%	\$ 738,840	\$ 738,840	\$ 738,840		
Government Development Bank for Puerto Rico - GDB	115,475	115,475			115,475
Commercial Bank	<u>2,245,574</u>	<u>2,377,069</u>			
Sub-total	<u>3,099,889</u>	<u>3,231,384</u>	<u>738,840</u>		<u>115,475</u>
<u>Special Revenue Fund:</u>					
Commercial Bank	<u>754,593</u>	<u>762,656</u>			
Sub-total	<u>754,593</u>	<u>762,656</u>			
<u>Debt Service Fund:</u>					
Government Development Bank for Puerto Rico - GDB	<u>503,324</u>	<u>503,324</u>			<u>503,324</u>
Sub-total	<u>503,324</u>	<u>503,324</u>			<u>503,324</u>
<u>Capital Project Fund:</u>					
Certificates of deposit due on July 27, 2003 at an interest rate of 1.65%	275,000	275,000	275,000		
Government Development Bank for Puerto Rico - GDB	130,263	130,263			130,263
Commercial Bank	<u>1,430,713</u>	<u>1,554,083</u>			
Sub-total	<u>1,835,976</u>	<u>1,959,346</u>	<u>275,000</u>		<u>130,263</u>
Total	<u>\$6,193,782</u>	<u>\$6,456,710</u>	<u>\$1,013,840</u>		<u>\$749,062</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

The cash classified in category 3 at June 30, 2003 correspond to interest bearing account and deposits maintained in the Government Development Bank for Puerto Rico.

The following is a description of the categories of credit risk:

Category	Description
1	The deposits are insured or collateralized with securities held by the Municipality or by its agent in the Municipality's name.
2	The deposits are collateralized with securities held by the financial institution's trust department or its agent in the Municipality's name.
3	The deposits are uninsured and uncollateralized.

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, 2003, 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.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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.

Following is detail intergovernmental revenue:

Puerto Rico Electric Power Authority	\$ 611,753
Property Taxes - basic	4,904,639
Reimbursement from the Commonwealth of Puerto Rico for Christmas bonus expenditures	85,459
Grant from the Administration of Families and Childs	<u>41,431</u>
Total	\$ <u>5,643,282</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

8. DUE TO OTHER GOVERNMENTAL ENTITIES

Current liabilities with other governmental entities at June 30, 2003 are as follows:

	<u>Due to</u>
Puerto Rico Aqueducts and Sewer Authority	\$ 250,446
Municipal Revenues Collection Center (CRIM)	49,258
Retirement System Administration	39,269
Puerto Rico Telephone Company	6,462
Department of Labor	53,482
General Services Administration	<u>1,855</u>
Total	\$ <u>400,772</u>

9. DEFERRED REVENUES

Municipal License Tax

The deferred revenues of approximately \$973,459 in the general fund relates to municipal license tax collect in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

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.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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, 2003:

Balance at July 1, 2002	\$ 18,392,441
Additions	114,083
Retirements	(3,157)
Balance at June 30, 2003	\$ <u>18,503,367</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

11. GENERAL LONG-TERM DEBT

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

	<u>Balance at</u> <u>July 1, 2002</u>	<u>Borrowings</u> <u>Or Additions</u>	<u>Payments or</u> <u>Deductions</u>	<u>Balance at</u> <u>June 30, 2003</u>
General obligations	\$ 1,138,000	\$ 230,000	\$ 176,000	\$ 1,192,000
Advances from PRTD	286,511	--	81,600	204,911
Advance from CRIM (Note 3)	1,141,997	840,636	14,048	1,968,585
Long-term agreement with GDB	9,222	--	2,991	6,231
Community Facilities Loans and Grants – Direct Loan	375,013	814,047	--	1,189,060
Accrued vacations and sick leave	849,286	10,940	--	860,226
P.R. Department of Labor and Human Resources	211,397	--	99,721	111,676
Payment of claims and judgments	<u> --</u>	<u>878,363</u>	<u> --</u>	<u>878,363</u>
Total	\$ <u>4,011,426</u>	\$ <u>2,773,986</u>	\$ <u>374,360</u>	\$ <u>6,411,052</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

General obligations at June 30, 2003, 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%.	\$ 297,000
• 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%.	45,000
• 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%.	65,000
• 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%.	185,000
• 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%.	280,000
• 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%.	115,000
• 2003 general obligations note due in annual installments of \$25,000 to \$40,000, through July 1, 2009; with interest ranging from 5% to 6.5%.	<u>205,000</u>
Total general long-term debt obligations	\$ <u>1,192,000</u>

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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).

During the fiscal year 2002-2003 the Municipality issued \$230,000 in general obligations notes for the purchase of trucks.

The annual requirement for the amortization of general obligations outstanding as of June 30, 2003, is as follow:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 187,000	\$ 56,067
2005	153,000	49,017
2006	133,000	42,247
2007	134,000	36,504
2008	85,000	30,447
Next five years	203,000	105,053
Thereafter	<u>297,000</u>	<u>95,038</u>
Total	\$ <u>1,192,000</u>	\$ <u>414,373</u>

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

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

This amount represents the balance owed to CRIM at June 30, 2003 as described in note 3, and that is being repaid through a financing 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. During the fiscal year 2002-2003 the Municipality received other advances totaling \$814,047. All advances will be annotated into the “Payment Register of the Promissory Note in Advance of Global 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.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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, 2003 amounted to \$32,414,421. General long-term debt, except for the general obligations and advances from CRIM, is paid with unrestricted funds.

12. 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.

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.

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

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, 2003 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 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

Municipality of Villalba

Notes to General-Purpose Financial Statements

For the year ended June 30, 2003

be granted under System 2000. The employers' contribution (9.275% of the employee's salary) will be used to fund the current plan.

13. 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.

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 or sub-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, 2003 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 to 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 provided in the general long-term debt account group an estimated liability for the total exposure for claims and judgments arising from lawsuits and federal actions.

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

For the year ended June 30, 2003

Federal Grantor Pass-Trough Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass-Trough Grantor Number	Federal <u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	RQ-049-VO	\$365,578
Passed through the Puerto Rico Office of Commissioner of Municipal Affairs:			
Community Development Block Grant / State's Program			
	14.228	B-95-CD-72-0001	42,148
	14.228	B-98-CD-72-0001	110,629
	14.228	B-99-CD-72-0001	26,033
	14.228	B-00-CD-72-0001	22,372
	14.228	B-01-CD-72-0001	554,077
	14.228	B-02-CD-72-0001	<u>378,890</u>
			<u>1,134,149</u>
Total U.S. Department of Housing and Urban Development			<u>1,499,727</u>

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

For the year ended June 30, 2003

Federal Grantor Pass-Trough Grantor <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass-Trough Grantor Number	Federal <u>Expenditures</u>
U.S. Department of Justice			
Pass-through Puerto Rico Department of Justice:			
Crime Victims Assistance	N/A	00-VA-VCV-01	18,546
Crime Victims Assistance	N/A	99-VA-VCV-01	<u>7,754</u>
			<u>26,300</u>
Local Law Enforcement Block Grant	N/A	2001-LB-BX-2794	<u>21,294</u>
Total U.S. Department of Justice			<u>47,594</u>
Federal Emergency Management Agency			
Pass-through GAR Disaster Assistance:			
FEMA 1277	83.544		<u>6,521</u>
Department of Commerce			
Grants For Public Works and Economic Development Facilities	11.300		<u>1,559,081</u>

MUNICIPALITY OF VILLALBA, PUERTO RICO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2003

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		12,870
Child Care and Development Block Grant	93.575		3,820
Special Programs for the Aging – Title III, Part C- Nutrition	93.045		<u>47,296</u>
Total U.S. Department of Health and Human Services			<u>63,986</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>814,047</u>
Total Federal Financial Assistance			<u>\$3,990,956</u>
N/A- Number not available			

MUNICIPALITY OF VILLALBA, PUERTO RICO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2003

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

For the year ended June 30, 2003

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	\$ 972,996
Capital Project Fund	<u>4,405,066</u>
Sub-total	<u>5,378,062</u>
Plus: advance received from USDA Rural Development and transfer to the General Long-Term Debt Account Group	814,047
Less: Local and Legislative grants and other miscellaneous charges	<u>(2,201,153)</u>
Expenditures in the Schedule of Expenditures of Federal Awards	\$ <u>3,990,956</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 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, 2003, and have issued our report thereon dated January 22, 2004. 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 at June 30, 2003. 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 and which are described in the accompanying schedule of findings and questioned costs as items 2003-14 thru 2003-28.

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
Page # 2

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 or 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 2003-01 thru 2003-13.

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 we believe none of the reportable conditions described above is a material weakness.

To the Honorable Mayor
and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
Page #3

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.

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

License No. 74

Expires December 1, 2004

January 22, 2004





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, 2003. 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
Page #2

In our opinion, 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, 2003. However, the results of our auditing procedures disclosed instances of non compliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2003-14 thru 2003-28.

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 2003-01 thru 2003-13.

Honorable Mayor and Members of the Municipal Legislature
Municipality of Villalba
Villalba, Puerto Rico
Page #3

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, we believe that none of the reportable conditions described above is a 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.

January 22, 2004

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

License No. 74.

Expires December 1, 2004



Municipality of Villalba
Schedule of Findings and Questioned Costs
For the year ended June 30, 2003

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: qualified
Internal control over financial reporting:
Material weakness (es) identified? ___yes Xno
Reportable conditions identified that are
not considered to be material weakness (es)? Xyes ___none reported
Noncompliance material to financial statements noted? ___yes Xno

Federal Awards

Internal control over major programs:
Material weakness (es) identified? ___yes Xno
Reportable conditions identified that are
not considered to be material weakness (es)? Xyes ___none reported
Type of auditors' report issued on compliance
for major programs: unqualified
Any audit findings disclosed that are required
to be reported in accordance with section 510(a) of
Circular A-133? Xyes ___no

Municipality of Villalba
Schedule of Findings and Questioned Costs
For the year ended June 30, 2003

Section I - Summary of Auditors' Results

Identification of major programs:

CFDA Number	Name of Federal Program
14.871	Section 8 Housing Choice Vouchers
14.228	Community Development Block Grants / State's Program
10.766	Communities Facilities Loans and Grants – Direct Loan
11.300	Grants for Public Works and Economic Development

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

Auditee qualified as low-risk auditee? yes X no

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

2003-01 GENERAL FIXED ASSETS

STATEMENT OF CONDITION:

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

- 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,

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

building, equipment and construction in progress and infrastructures.

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
 - Changes in general fixed assets by major assets class

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

- 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.

2003-02 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 maintained or posted on a timely basis.

RECOMMENDATION:

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

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.

2003-03

OPERATING DEFICIT OF GENERAL FUND

STATEMENT OF CONDITION:

The Municipality has an accumulated deficit in its General Fund. The general-purpose financial statements has had recurring deficiencies of revenues over expenditures before other financing resources during five of its last seven years, and an accumulated deficit of \$432,171, for the general fund as of June 30,

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

2003. 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 2002-2003:

- During the year the Municipal Legislature approved Ordinance # 69 for the creation of a special fund as a consequence of excess of collections over budgeted amounts for an income item without first considering amortize actual deficit as required by law. Total amount represents \$785,177.
- During the year the Municipal Legislature approved Ordinance # 73 for the creation of a special fund as a consequence of unexpended budgeted items without first considering amortize actual deficit as required by law. Total amount represents \$60,000.

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.

2003-04 CASH AND BANK ACCOUNTS

STATEMENT OF CONDITION:

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

The Municipality has not established adequate and sufficient controls in the handling of the bank account in the Debt Service Fund to prevent errors and irregularities from being timely detected. The following control deficiencies were noted during our examination:

- a) The cash balance shown by the Municipality's Treasury Department for the Debt Service Fund as of June 30, 2003, 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.
- b) The year transactions on the escrow accounts resulted from Notes and Bonds Payables were not recorded in the Municipality's books as notified by Government Development Bank for Puerto Rico (GDB).
- c) The year transactions on the FEMA - Hurricane Georges account were not recorded in the Municipality's books as notified by Government Development Bank for Puerto Rico (GDB).

RECOMMENDATION:

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.

2003-05

USE OF RESTRICTED FUNDS

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

STATEMENT OF CONDITION:

As of June 30, 2003, 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 commingled with other funds and/or 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.

2003-06

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 were 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

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

basis from cash that represents revenue to the program since these transactions have different accounting treatment for financial statement presentation.

2003-07 PERSONNEL FILES AND PAYROLL RELATED PROCEDURES

STATEMENT OF CONDITION:

As part of our payroll test, we selected a sample of 38 personnel files. The following will summarize the deficiencies noted:

- In 22 (58%) of the items examined, Federal Form I-9 was missing or incomplete.
- In 23 (61%) of the items examined, "Hacienda Form 499/R4" was missing or incomplete.
- In 6 (16%) of the items examined, copy of the social security card was missing.
- In 14 (37%) of the items examined, the good behavior certificate was missing.
- In 17 (45%) of the items examined, the health certificate requirement was missing.
- In 4 (11%) of the items examined, personal history was missing.
- In 3 (8%) of the items examined, birth certificate was missing.

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

- In 28 (74%) of the items examined, Drug & Alcohol Policy Certificate was missing.
- In 2 (5%) of the items examined, the OP-15 Form was missing.
- In 5 (14%) of the items examined, the employee photo was missing.
- In 33 (87%) of the items examined, the Doping (Drug Free Act) Certification was missing.
- In 19 (50%) of the items examined; the ASUME Certification Form was missing.
- In 3 (8%) of the items examined, the Employee Application Form was missing.
- In 4 (11%) of the items examined, the Job Appointment Letter was missing.
- In 3 (15%) of the items examined, the employee signature was missing from the time cards.
- In 1 (5%) of the items examined, the supervisor signature was missing from the time cards.
- The Municipality could not provide us the eligible employee register for our examination.

RECOMMENDATION:

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

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.

CONDITION:

2003-08 MUNICIPAL LICENSE TAX

During our municipal licence tax test, we selected a sample of 26 municipal license tax files, amounting to \$503,823.67. For 8 (31%) of the sample selected (amounting to \$496,308.29), the following exceptions were noted:

- In 3 (12%) of sample selected (amounting to \$1,211.88), we noted that they were not properly certified by an authorized municipal official or by a public notary.
- In 3 (12%) of the sample selected, (amounting to \$4,596.26), we noted that required copy of the income tax return were not available in the municipal license tax file.
- In 7 (27%) of the sample selected, (amounting to \$496,074.50), we noted that copy of other required documents as specified on OCAM Circular 02-07 were not available in the municipal license tax file.

RECOMMENDATION:

The Municipality should improve the existing procedures related to the municipal license taxpayer files, to ascertain it completeness and accuracy. Also, the Municipality should implement a checklist to be used for each taxpayer to assure completeness of the required documentation.

Municipality of Villalba
Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

2003-09 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.

2003-10 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:

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

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.

2003-11 BIDDING PROCEDURES

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

STATEMENT OF CONDITION:

- No Municipal Bid Board Regulation has been adopted.
- In 2 (18%) of the file examined, the bid was celebrated before ten (10) days have been passed from the date when the bid was published.
- In 6 (55%) of the bids celebrated a particular citizen was not present (or excused) as a members of the Bid Board.
- In 16 out of 17 (84%) auction files examined, the Bidder Register Certification was not included in the file.
- In 4 out of 19 (21%) of the auction files examined (some bids

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

like the General Bid I and III, and the Vehicle Bid IV, were divided in sub bids), did not have explanations or the reason for being chosen or not adjudicated.

- In 11 out of 17 (62%) auction files examined, the bidders' *Non-Collusive Affidavit* was not included as part of the bid package.
- In 1 out of 17 (6%) auction files examined, the bidder's CRIM debt certification was not included as part of the bid package.
- In 2 out of 17 (12%) auction files examined, the bidder's Income Tax Return Submittance Certificate was not included as part of the bid package.
- In 3 out of 17 (18%) auction files examined the bidder's Income Tax Debt Certificate was not included as part of the bid package.

CRITERIA:

Law 81 of August 30, 1991, chapter X, Article 10.005 states that "the Board will establish the rules and procedures for their internal function and to perform all the function and responsibilities that are stated in this law".

Law 81 of August 30, 1991, chapter X, Article 10.001 that states "all public bid announcement will be published with not less than ten (10) days prior the date of the bid at least once, in at least one (1) general circulation newspaper within the Commonwealth of Puerto Rico".

Law 81 of August 30, 1991, chapter X, Article 10.004 that states "all

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

municipalities will have one Bid Board with five (5) members. Three (3) of the members are municipal officers nominated by the Mayor and confirmed by de Municipal Legislature. The fourth member will be the Mayor, and will be the President of the Board. The fifth member will be a particular citizen with proven moral reputation, who will be nominated by the Mayor and confirmed by the Municipal Legislature, and whom should not have any contractual contract with the municipality.

Law 81 of August 30, 1991, chapter X, Article 10.006 states that "La Junta requerirá al licitador las garantías que estime necesarias a fin de asegurar el cumplimiento del contrato de compra y podrá fijar los demás términos de dicho contrato que, a su juicio, considere necesarios, convenientes o útiles.

En casos de obras y mejoras públicas el contratista antes de firmar el acuerdo correspondiente, además de lo requerido en el Artículo 8.016 de esta ley, someterá o prestará las fianzas y garantías que le requiera la Junta para asegurar el fiel cumplimiento del contrato".

RECOMMENDATION:

The Municipality of Villalba should take the proper action in order for the Bid Board to establish and implement such regulation and procedures.

The Municipality of Villalba should take action in order to insure that the days between the publication of a public bid and the celebration of the same have more than ten (10) days.

The Municipality of Villalba should name a particular citizen that will fulfill the responsibilities as the fifth member of the Bid Board.

The Municipality of Villalba should implement and use a Bidder Register, or can use the one provided by Administración de Servicios Generales.

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

The Municipality of Villalba should take the proper actions in order for the Bid Board to establish and implement regulation and procedures in accordance with the law and regulations so all bids will have an explanation for any action taken.

The Municipality of Villalba should take the proper actions in order for the Bid Board to establish and implement regulation and procedures in accordance with the law and regulations so all bidders will provide enough evidence as to demonstrate of being acting as good citizens, without debts to the municipality and/or the central government.

2003-12 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 2,028. The following exceptions were noted:

- In 2 (5%) of the sample selected, the payment vouchers were not available for our examination.
- Fourteen (14) items of the sample examined require bids or quotes. In 1 (8%) of them no bid or quote were available on the files.
- In 3 (8%) of the items examined, the authorized requisition forms do not appear as part of the disbursement voucher.

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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)

- In 2 (5%) of the items examined, the authorized pre-audit forms do not appear as part of the disbursement voucher.
- In 2 (5%) of the items examined, the authorized purchase order do not appear as part of the disbursement voucher.
- In 2 (5%) of the items examined, the invoices do not appear as part of the disbursement voucher.
- In 2 (5%) of the items examined, the general ledger account number do not appear on the voucher.
- In 5 (13%) of the items examined, the required employee certification do not appear as part of the disbursement voucher.
- In 4 (10%) of the items examined, the required vendor certification required do not appear as part of the disbursement voucher.
- In 8 (20%) of the items examined, one or more signatures were missing from the disbursement voucher or the dates do not follow the required sequenced.
- In 3 (8%) of the items examined, the disbursement voucher was no cancelled.
- In 6 (15%) of the items examined, the certification of availability of credit do not appear as part of the disbursement voucher.

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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:

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, equipment, and construction and service contracts.

2003-13

CASH DISBURSEMENTS-SPECIAL ACCOUNTS

STATEMENT OF CONDITION:

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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)

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 15)

In 4 (100%) of the items examined, the general ledger account number do not appear on the voucher.

In 2 (50%) of the items examined, the dates of the signatures do not follow the required sequenced.

- Resoluciones Conjuntas (account number 127-013458) (State Funds) (10 disbursement selected out of 78)

In 1 (10%) of the items tested, an authorized requisition form was missing.

In 1 (10%) of the items tested, the pre-authorized audit form was missing.

In 1 (10%) of the items tested, the purchase orders was missing.

In 1 (10%) of the items tested, the vendor's invoice was missing.

In 1 (10%) of the items tested, the general ledger account number was missing.

In 1 (10% of the items tested, the check was delivered with only one authorized signature.

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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)

In 2 (20%) of the items tested, the quotations were missing

In 2 (20%) of the items tested, the employee certification was missing.

In 1 (10%) of the items tested, the vendor's certification was missing.

In 2 (20%) of the items tested, the voucher's dates were missing or did not follow the required sequence.

In 1 (10%) of the items tested, the disbursement voucher was not canceled.

In 1 (10%) of the items tested, the certification of availability of credit was missing.

- Proyecto Mejoras Carretera 149 (account number 127-011048) (State Funds) (1 disbursements selected out of 3)

In 1 (10%) of the items tested, an authorized requisition form was missing.

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

- Campamento de Verano (account number 127-013253) (State Funds) (4 disbursements selected out of 10)

In 1 (25%) of the items tested, the pre-authorized audit form was missing.

In 1 (25%) of the items tested, the general ledger account number was

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missing.

In 1 (25%) of the items tested, the employee certification was missing.

In 1 (25%) of the items tested, the voucher's dates were missing or did not follow the required sequence.

In 1 (25%) of the items examined, the disbursement voucher was no cancelled.

In 1 (25%) of the items tested, the certification of availability of credit was missing.

- Comunidades Especiales (account number 127-013474) (State Funds) (3 disbursement selected out of 17)

In 1 (33%) of the items examined, the authorized pre audit form do not appear as part of the disbursement voucher.

In 1 (33%) of the items examined, the general ledger account number was missing.

In 2 (67%) of the items examined, the required employee certification was missing.

In 1 (33%) of the items examined, the voucher's dates were missing or not follow the required sequence.

In 1 (100%) of the items examined, the disbursement voucher was no

Municipality of Villalba

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cancelled.

In 1 (33%) of the items tested, the certification of availability of credit was missing.

- Campamento de Verano (account number 127-014128) (State Funds) (3 disbursements selected out of 3)

In 2 (67%) of the items tested, the pre-authorized audit form was missing.

In 1 (33%) of the items tested, the quotations were missing.

In 1 (33%) of the items examined, the required employee certification was missing.

- Local Law Enforcement (account number 127-013679) (Federal Funds) (3 disbursements selected out of 3)

In 1 (33%) of the items examined, the required employee certification was missing.

- Centro de Envejecientes (account number 127-013865) (Federal Funds) (3 disbursements selected out of 24)

In 1 (33%) of the items tested, the vendor's invoice was missing.

In 1 (33%) of the items examined, the required employee certification was missing.

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In 1 (33%) of the items tested, the vendor's certification was missing.

- Manejor de Emergencias (account number 127-013873) (Federal Funds) (2 disbursements selected out of 5)

In 1 (50%) of the items tested, the vendor's invoice was missing.

In 1 (33%) of the items tested, the quotations were missing

In 1 (50%) of the items examined, the required employee certification was missing.

In 1 (50%) of the items tested, the vendor's certification was missing.

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.

Municipality of Villalba
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For the year ended June 30, 2003

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	2003-14 EQUIPMENT AND REAL PROPERTY MANAGEMENT (F) STATEMENT OF CONDITION: 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. No physical inventory of property and equipment held at the Municipality, has been performed during the last two 2 years. CRITERIA: 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. CAUSE:	

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>
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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. 2003-01 of the Section II of the Schedules of Findings and Questioned Costs)

Section 8
Housing Choice
Vouchers
CFDA 14.871

2003-15 ALLOWABLE COSTS / COST PRINCIPLES (B)

STATEMENT OF CONDITION:

As part of our test of cash disbursements, we

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>
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selected a sample of 40 checks (30 HAPs and 10 administrative) out of 1,515. The following instances related to the internal controls and/or the adequacy of the supporting documentation were noted:

In 26 of 40 (65%) of the items tested, the vouchers were not stamped as cancelled.

In 21 of 40 (53%) of the items tested, the voucher's dates did not follow the required sequence and/or missing signatures.

In 1 of 30 (4%) of the items tested, voucher #02-10-3 HAP payments were done for a three bedrooms house while the family composition is only two persons.

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

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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>
	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.	
Section 8 Housing Choice Vouchers CFDA 14.871	2003-16 ELEGIBILITY (E)	
	STATEMENT OF CONDITION:	
	The following instances were noted in which required supporting documents were not available in tenants files, out of 30 files tested:	
	Signed application form filled out during the initial interview	13
	Signed release forms to allow the PHA to obtain information from third parties	2
	Federally-prescribed general release form for employment	

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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>
	verification	30
	Signed Privacy Act Notice	8
	Income Eligibility Verification	1
	Family income and composition was not reexamine at least once in a year	1
	Reported family annual income	1
	Value of assets	30
	Expenses related to deductions from annual income	1
	Other factors affecting the determination of adjusted income or income based rent	1
	Determine income eligibility and calculate the tenant's rent payment using the documentation from the third party verification	4
	Certificate of birth and/or marriage	1

CRITERIA:

The 24 CFR §5.230, §5.609 and §982.516 established that as a condition of admission or continued

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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	<p>occupancy the tenant must provide necessary information, documentation and releases to verify income eligibility.</p> <p>CAUSE:</p> <p>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.</p> <p>EFFECT:</p> <p>The Municipality may be qualifying tenants that do not qualify with eligibility requirements.</p> <p>RECOMMENDATION:</p> <p>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 such documents in the participant's files.</p> <p>2003-17 SPECIAL TEST AND PROVISIONS (N)</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>
CFDA 14.871	<p>The Municipality does not maintain an HQS Quality Control Register.</p> <p>In addition, we noted that in 1 (20%) case a voucher was issued for a three bedroom's house while the HQSI state a two-bedroom's house. Actual payment to landlord was computed using a three-bedroom's house.</p> <p>CRITERIA:</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 HQS.</p> <p>EFFECT:</p> <p>Non compliance with federal compliance requirements.</p> <p>RECOMMENDATION:</p> <p>The Municipality should establish a HQS Quality Control register.</p>	

Municipality of Villalba

Schedule 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	2003-18 SPECIAL TEST AND PROVISIONS (N) STATEMENT OF CONDITION: In 4% (1 of 30) of the tenants files examined the HQSI failed and was not marked as such. No further re-inspection was found on file. CRITERIA: The 24 CFR § 982.404 states that for units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations. CAUSE: Internal control procedures to ascertain that all HQS that that reveal deficiencies are corrected within allowed period of time. The Municipality is not monitoring compliance with federal regulations regarding HQS	

Municipality of Villalba

Schedule 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>
	Enforcement. EFFECT: The Municipality may be paying HAP's for housing that doesn't meet program requirements. Non-compliance with federal compliance requirements. RECOMMENDATION: The Municipality should establish procedures to ascertain that action according to regulations is taken in all tenant's rented units that failed inspection.	
Section 8 Housing Choice Vouchers CFDA 14.871	2003-19 SPECIAL TEST AND PROVISIONS (N) STATEMENT OF CONDITION: The Municipality is misusing the utility allowance provided in the utility allowance schedule. The utility allowance used for rent determination was not the same as the utility allowance provided by landlord (we noted this condition in 3 (12%) of the sample examined). The utility allowance computed was determined using incorrect quantity of bedrooms (we noted this condition in 2 (8%) of the sample examined). CRITERIA: The 24 CFR §982.517 (2) states; “(i) a PHA's utility allowance schedule, and the	

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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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utility allowance for an individual family, must include the utilities and services that are necessary in the locality to provide housing that complies with the housing quality standards. However, the PHA may not provide any allowance for non-essential utility costs, such as costs of cable or satellite television.

(ii) in the utility allowance schedule, the PHA must classify utilities and other housing services according to the following general categories: space heating; air conditioning; cooking; water heating; water; sewer; trash collection (disposal of waste and refuse); other electric; refrigerator (cost of tenant-supplied refrigerator); range (cost of tenant-supplied range); and other specified housing services. The PHA must provide a utility allowance for tenant-paid air-conditioning costs if the majority of housing units in the market provide centrally air-conditioned units or there is appropriate wiring for tenant-installed air conditioners”.

CAUSE:

Internal control procedures to ascertain that utility allowance schedule is worked as intended fail in detect these instances.

EFFECT:

The Municipality may be paying excess amounts HAP's. Non-compliance with federal compliance requirements.

RECOMMENDATION:

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<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
Section 8 Housing Choice Vouchers CFDA 14.871	<p>The Municipality should establish procedures to ascertain that the utility rate data and utility allowance are periodically revised and that all utilities that qualify for tenants calculation are used</p> <p>2003-20 SPECIAL TEST AND PROVISIONS (N)</p> <p>STATEMENT OF CONDITION;</p> <p>The Municipality is using incorrect FMR tables to determine reasonable rent to owner at the time of initial leasing, and also during the term of the contract. We noted this condition in 8 (80%) of the sample examined.</p> <p>CRITERIA:</p> <p>The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.503, 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).</p> <p>CAUSE:</p> <p>The Municipality is not utilizing the internet or other resources as a mean to obtain current data to comply with reasonable rent 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>
Community Development Block Grant CFDA 14.228	<p>EFFECT:</p> <p style="padding-left: 40px;">Non-compliance with federal compliance requirements.</p> <p>RECOMMENDATION:</p> <p style="padding-left: 40px;">The Municipality should establish procedures to ascertain that the rent is reasonable.</p> <p>2003-21 ALLOWABLE COSTS / COST PRINCIPLES (B)</p> <p>STATEMENT OF CONDITION:</p> <p style="padding-left: 40px;">As part of our test of cash disbursements during the year, we selected a sample of 20 disbursements out of 131. The following instances related to the adequacy of supporting documents were noted:</p> <p style="padding-left: 80px;">In 18 (90%) of the items tested, the general ledger account number was missing.</p> <p style="padding-left: 80px;">In 1 (5%) of the items tested, the canceled check was not available.</p> <p style="padding-left: 80px;">In 3 (15%) 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 8 (40%) of the items tested, the voucher's dates were missing or not follow the required sequence.	
	In 1 (5%) of the items tested, the disbursement voucher was not canceled.	
	In 1 (5%) of the items selected, the cancelled check was not available for our inspection.	

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.

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>
Community Development Block Grant CFDA 14.228	<p>RECOMMENDATION:</p> <p>The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.</p> <p>2003-22 CASH MANAGEMENT (C)</p> <p>STATEMENT OF CONDITION:</p> <p>As part of our test of cash management during the year, we selected a sample of 20 disbursements out of 131. The following instances related to the adequacy of cash management procedures were noted:</p> <p>In 2 (10%) of the items examined, the days between the day payment was requested and the day funds were requested were over 29 days.</p> <p>In 1 (5%) of the items examined, the days between the day the funds were received and the day of payment was 10 days.</p> <p>In 1 (5%) of the items examined, the date for request of funds was missing from the file.</p> <p>CRITERIA:</p>	

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Schedule of Findings and Questioned Costs

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Section III - Federal Award Audit Findings and Questioned Costs

Federal Program

Findings/Non Compliance and Recommendation

Questioned
Costs

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.

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.

RECOMMENDATION:

In accordance with Federal Regulations, the Municipality should estimate the use of federal funds as closely as possible to the actual disbursements.

Communities
Facilities Loans
Grant
CFDA 10.766

2003-23 ALLOWABLE COSTS / COST
 PRINCIPLES (B)

STATEMENT OF CONDITION:

As part of our test of cash disbursements during the year, we selected a sample of 8 disbursements out of 9. The following instances related to the adequacy of supporting documents were noted:

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Section III - Federal Award Audit Findings and Questioned Costs

Federal Program

Findings/Non Compliance and Recommendation

**Questioned
Costs**

In 8 (100%) of the items tested, the general ledger account number was missing.

In 1 (13%) of the items tested, the cancelled check was not available for our inspection.

In 2 (25%) of the items tested, the payment voucher had incorrect or missing signature/date certifications.

In 8 (100%) of the item tested the obligation number was missing from documents.

In 8 (100%) of the item tested the federal award Number was missing from documents.

In 8 (100%) of the item tested the account number was missing from documents.

In 8 (100%) of the item tested the documents were not properly completed.

CRITERIA:

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

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>CAUSE:</p> <p>The Municipality has not implemented adequate internal controls to provide reasonable assurance that only documented, authorized and allowable costs are charge to federal programs.</p> <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>	
<p>Communities Facilities Loans Grant CFDA 10.766</p>	<p>2003-24 CASH MANAGEMENT (C)</p> <p>STATEMENT OF CONDITION:</p> <p>As part of our test of cash management during the year, we selected a sample of 8 disbursements out of 9. The following instances related to the adequacy of cash management procedures were noted:</p> <p>In 4 (50%) of the item tested it took 5 or more days</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>
Communities Facilities Loans Grant CFDA 10.766	<p style="text-align: center;">from the day funds were received and the day of payment.</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>	
	<p>2003-25 DAVIS-BACON ACT (D)</p>	
	<p>STATEMENT OF CONDITION:</p>	
	<p>The Municipality does not maintain adequately register at all certified payroll submitted by contractors or</p>	

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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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sub-contractors. A weekly payroll for the month of November was missing from the contract file.

CRITERIA:

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 Contracts 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

Municipality of Villalba
Schedule 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>
Grants for Economic Development CFDA 11.300	<p>to assure compliance with Davis-Bacon Act are not complied with.</p> <p>EFFECT:</p> <p style="padding-left: 40px;">Noncompliance with David-Bacon Act leads to non-allowable costs.</p> <p>RECOMMENDATION:</p> <p style="padding-left: 40px;">The Municipality should design and implement control procedures in order to assure compliance with applicable federal regulations.</p> <p>RECOMMENDATION:</p> <p style="padding-left: 40px;">The Municipality should design and implement control procedures in order to assure compliance with applicable federal regulations.</p>	
	<p>2003-26 ALLOWABLE COSTS / COST PRINCIPLES (B)</p>	
	<p>STATEMENT OF CONDITION:</p> <p style="padding-left: 40px;">As part of our test of cash disbursements during the year, we selected a sample of 13 disbursements out of 31. The following instances related to the adequacy of</p>	

Municipality of Villalba

Schedule of Findings and Questioned Costs

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Section III - Federal Award Audit Findings and Questioned Costs

Federal Program

Findings/Non Compliance and Recommendation

**Questioned
Costs**

supporting documents were noted:

In 12 (92%) of the items tested, the general ledger account number was missing.

In 2 (15%) of the items tested, the payment voucher had incorrect or missing signature/date certifications.

In 1 (8%) of the item tested the obligation number was missing from documents.

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

Municipality of Villalba

Schedule 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>
	unauthorized or unallowable payments.	
	RECOMMENDATION: The Municipality should improve its file management and documentation procedures in order to comply with state and federal regulations.	
Grants for Economic Development CFDA 11.300	2003-27 DAVIS-BACON ACT (D) STATEMENT OF CONDITION: As part of our test for compliance with regulation of Davis-Bacon Act, we selected a sample of 3 construction contracts out of 3 with their respective payroll submission. The following instances related to the adequacy of evidence of inclusion of a clause regarding this act were noted: <ul style="list-style-type: none">• In 1 (33%) of the items tested, the clause indicating the Davis-Bacon Act compliance was not included as part of the contract as well as a copy of the prevailing wages.	
	CRITERIA: 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	

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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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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).

CAUSE:

The internal control procedures related to the contracting process for construction fail in maintain a signed copy of the form HUD-5370 as part of the construction contract file. Each administer of this construction contractor shall maintain aware that the payroll are sent weekly to the construction manager.

EFFECT:

The Municipality may have not complying with the requirements for Davis-Bacon Act. These could result in disallowed costs by the federal awarding agency.

RECOMMENDATION:

The Municipality should strengthen its procedures related to contracting process in order to ascertain the compliance with Davis -Bacon Act.

The Municipality does not review key clauses for

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

Section III - Federal Award Audit Findings and Questioned Costs

<u>Federal Program</u>	<u>Findings/Non Compliance and Recommendation</u>	<u>Questioned Costs</u>
	contracts which compromise federal funds.	
Grants for Economic Development CFDA 11.300	2003-28 DAVIS-BACON ACT (D) STATEMENT OF CONDITION: The Municipality does not maintain adequately register at all certified payroll submitted by contractors or sub-contractors. Weekly payrolls for one of the three contracts were missing. CRITERIA: 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 Contracts 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).	

Municipality of Villalba

Schedule of Findings and Questioned Costs

For the year ended June 30, 2003

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>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> <p>RECOMMENDATION:</p> <p>The Municipality should design and implement control procedures in order to assure compliance with applicable federal regulations.</p>	
		Total Questioned Costs \$ <u> --</u>

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

Audit Year: June 30, 2003

Date: January, 30, 2004

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-01 General Fixed Asset <i>SI</i>	The person in charged of the property for the Municipality of Villalba, in coordination with personnel from the Office of Municipal Affairs (OCAM), has brought up to date the Municipality property inventory.	Accomplished.
Finding 2003-02 Accounting System. <i>SI</i>	The municipality utilizes the mechanized system from OCAM that accomplished The General Accepted Accounting Principles (GAAP) requirements. We have been in touch with the OCAM personnel to keep up tracking the use of the accounting system.	Accomplished.

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

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-03 Operating Deficit of General Fund. <i>no</i>	When the budgets for the past two years were approved, we took administrative policies and assigned \$80,000 during 2001-2002 and \$70,000 during 2002-2003 to amortize the accumulated deficit. A monthly analysis of the budget is prepared in order to avoid operating deficit, during the current fiscal year.	Partially Accomplished. The Operating Deficit of General Fund decreased during the current fiscal year.
Finding 2003-04 Cash And Bank Accounts. <i>si</i>	The Accounting Head is preparing the bank reconciliations on a monthly basis and is constantly establishing better procedures to accrue the information.	Accomplished. The Bank Reconciliations are up to date.
Finding 2003-05 Use Of Restricted Funds. <i>no</i>	At this moment the Legislative Resolutions are being analyzed in order to reimburse the money utilized.	Partially Accomplished. The Finance Director is in the process of analyzing Legislatives Resolutions.

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

FINDING	CORRECTIVE ACTION	RESULTS
Finding 2003-06 Interfund Transactions. <i>NO</i>	The Finance Director and the Accounting head identified all of the Interfund Transactions.	Accomplished.
Finding 2003-07 Personnel Files And Payroll Related Procedures. <i>SI</i>	The Human Resources Director implemented the recommendations of the Internal Auditor Report, during the year.	Partially Accomplished.
Finding 2003-08 Municipal License Tax <i>NO</i>	The Finance Director and the Collections Coordinator were oriented on how they must improve the procedures, related to the municipal taxpayers, in order to make them more accurate.	Partially Accomplished. The Collection Division is partially implementing the recommendations of the Internal Auditor Report made, during the past fiscal year.
Finding 2003-09 Long Term Debt. <i>NO</i>	The Finance Director and the Accounting head were oriented that they must correct the deficiencies founding in the Long Term Debts.	Partially Accomplished. This is one of the administration's priorities, to actualize the Long Term Debts Register.

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

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-10 Accounts Payable And Encumbrances. <i>NO</i>	The Finance Director was oriented regards the Accounts Payables and Encumbrances procedures.	Accomplished. The OCAM System provides the reports necessary to separate the accounts payables from the Encumbrances.
Finding 2003-11 Bidding Procedure <i>51</i>	The President of the Bid Board was oriented that it should name a particular citizen as the fifth member of the Board and on the requirements established by the Law 81, regarding regulations of Bid Board.	Partially Accomplished. The Bid Board adopted its Regulations.
Finding 2003-12 Cash Disbursements-General Account	The Pre-intervention Head and her assistance pre-audit the procedures of Disbursements to assure compliance with Regulations.	Accomplished. The administration implemented adequate Internal Controls.
Finding 2003-13 Cash Disbursements-Special Accounts	A control measure was established by pre-intervening every Voucher, before making the appropriate payment.	Accomplished. Every Voucher is Pre- Intervened by the Pre- Intervention Division.

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

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-14 Equipment and Real Property Management <i>SI</i>	The person in charge of the Property performed a physical inventory during the current year.	Partially Accomplished. The administration is evaluating the means to create real property records that provides required information by Federal Regulations.
Finding 2003-15 Allowable Costs/ Cost Principle (B) <i>NO</i>	We gave instruction to the Section 8 accountant to include the correspondent account number in the cash disbursement instead of the name of the program. 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.	Accomplished

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

FINDING	CORRECTIVE ACTIONS	RESULTS
<p>Finding 2003-16 Elegibility <i>no</i></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 any third party income verification for each participant. We are going to prepare a form in order to identify the participants that are not any more in the programs.</p>	<p>Accomplished. We revised and evaluated all files in order to correct them.</p>
<p>Finding 2003-17 Special Test and Provisions <i>no</i></p>	<p>A new Administrative Plan has been prepared in which tenants are evaluated accordingly with requirements of the program.</p>	<p>Accomplished. We already have a procedure to obtain and review requirements. 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
Finding 2003-18 Special Test and Provisions <i>NO</i>	A new Administrative Plan has been prepared in which HQSI procedures are going to be implemented and marked on tenant's files as such.	Accomplished. The Director of the Program identified the tenants and established a re-inspection to the tenants rental units that failed inspection, previously.
Finding 2003-19 Special Test and Provisions <i>NO</i>	We gave instructions to the Section 8 accountant on how to establish procedures to ascertain utility rate data.	Partially Accomplished.
Finding 2003-20 Special Test and Provisions <i>NO</i>	A new Administrative Plan has been prepared in which FMR tables specified reasonable rent amounts.	The Director of the Program accesses frequently the Internet and is constantly looking for resources to obtain current data to comply with reasonable rent requirements.
Finding 2003-21 Allowable Costs/ Cost Principle (B) <i>NO</i>	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.	Accomplished.

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

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-22 Cash Management (C) <i>NO</i>	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.	Partially Accomplished.
Finding 2003-23 Allowable Costs/Cost Principle (B) <i>NO</i>	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.	Partially Accomplished.
Finding 2003-24 Cash Management <i>NO</i>	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.	Partially Accomplished.

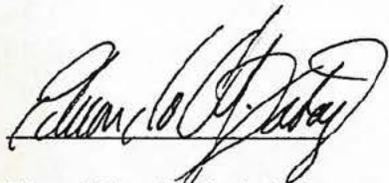
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VILLALBA
CORRECTIVE ACTION PLANS
SINGLE AUDIT REPORT**

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-25 Davis Bacon Act (D) <i>SI</i>	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.	Accomplished.
Finding 2003-26 Allowable Costs/Cost Principle (B) <i>SI</i>	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.	Partially Accomplished.
Finding 2003-27 Davis Bacon Act <i>SI</i>	We know the importance 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 requirements.	Accomplished.

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

FINDING	CORRECTIVE ACTIONS	RESULTS
Finding 2003-28 Davis Bacon Act	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.	Accomplished.

I certify that the above information is correct:



Hon. Eduarde Ortiz Laboy
Acting Mayor
Municipality of Villalba

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2003

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, 2002, 2001. 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 2002-2003).
- NR- Not resolved yet (finding repeated in fiscal year 2002-2003).

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2002-01	General Fixed Assets and GASB #34	PR
2002-02	Accounting System	PR
2002-03	Operating Deficit of General Fund	PR
2002-04	Cash and Bank Accounts	PR
2002-05	Use of Restricted Funds	PR
2002-06	Inter-funds Transactions	PR
2002-07	Investments	FR
2002-08	Personnel Files and Payroll Related Procedures	PR
2002-09	Long-term Debt	PR
2002-10	Account Payable and Encumbrances	PR

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2003

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2002-11	Bidding Procedures	PR
2002-12	Cash Disbursements- General Account	PR
2002-13	Cash Disbursement-Other Accounts	PR
2002-14	Equipment and Real Property Management (F) (MW)	PR
2002-20	Allowable Costs/ Cost Principles (B)	PR
2002-21	Cash Management (C)	PR
2002-22	Allowable Costs/ Cost Principles (B)	PR
2002-23	Davis Bacon Act (D)	PR
2002-24	Davis Bacon Act (D)	PR
2002-25	Davis Bacon Act (D)	PR
2002-26	Reporting (L)	PR
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

Municipality of Villalba

Summary Schedule of Prior Years Findings and Questioned Costs

June 30, 2003

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2001-08	Municipal License Tax	PR
2001-09	Long-term Debt	NR
2001-10	Account Payable and Encumbrances	NR
2001-11	Cash Management	NR
2001-12	Bidding Procedures	PR
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
2001-20	Inadequate Property Records	PR