

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE YAUCO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

MUNICIPALITY OF YAUCO

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF YAUCO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001

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MUNICIPALITY OF YAUCO

YEAR ENDED JUNE 30, 2001

FINANCIAL SECTION



ROMAN TORO & CO., CSP
Certified Public Accountants and Business Consultants

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**INDEPENDENT AUDITORS' REPORT ON
GENERAL PURPOSE FINANCIAL STATEMENTS**

Honorable Mayor and Members
of the Municipal Assembly
Municipality of Yauco
Yauco, Puerto Rico

We have audited the accompanying general purpose financial statements of the **Municipality of Yauco, Puerto Rico** (the Municipality), as of and for the year ended June 30, 2001 as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Puerto Rico, and the standards applicable to financial audits contained Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of the Municipality's accounting records we were unable to form an opinion regarding the amount at which the fixed assets (stated at \$14,716,430) are presented in the accompanying combined general purpose financial statements.

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

In our opinion, except for the effects for the adjustments, if any, as might have been determined to be necessary had we been able to obtain a sufficient evidential matter to form an opinion regarding the amount at which the fixed assets are presented in the accompanying combined general purpose financial statements as discussed in the third paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Yauco as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated December 17, 2001, on our consideration of Municipality of Yauco's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grants. That report 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements of Municipality of Yauco. 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.

As discussed in Note 12 to financial statements, the Municipality of Yauco has expended certain grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to appropriate federal officials, is uncertain at this time. Accordingly, no provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant monies.

This report is intended for the information of the Municipality's management and the Office of the Commissioner of Municipal Affairs. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Municipality, is a matter of public record.


ROMAN TORO & CO., CSP

December 17, 2001
Yauco, Puerto Rico

License No. 35
Expires December 1, 2002

Stamp #1766359 was affixed to the
original of this report

**MUNICIPALITY OF YAUCO
COMBINED BALANCE SHEETS
ALL FUND TYPES AND ALL ACCOUNT GROUPS
JUNE 30, 2001**

ASSETS

	GOVERNMENTAL FUND TYPES			ACCOUNT GROUPS		Total Memorandum Only
	General	Special Revenue	Debt Service	General Fixed Assets	General Long-Term Debt	
Cash:						
Cash including \$2,399,868 in certificates of deposits	\$2,148,055	\$2,679,414				\$ 4,827,469
Cash with fiscal agent			3,272,459			3,272,459
Receivables:						
Municipal tax	17,250					17,250
Amount due from:						
Federal grants		1,282,065				1,282,065
Other funds	171,266	839,537				1,010,803
Property, plant and equipment				14,716,430		14,716,430
Other Assets:						
Amount to be provided for payment of:						
Compensated absences					1,177,138	1,177,138
Long-term debt					4,175,472	4,175,472
Estimated liability for landfill closure and postclosure care costs					17,804	17,804
Amount available in debt service fund	0	0	0	0	3,243,122	3,243,122
Total Assets	<u>\$2,336,571</u>	<u>\$4,801,016</u>	<u>\$3,272,459</u>	<u>\$14,716,430</u>	<u>\$8,613,536</u>	<u>\$33,740,012</u>
Liabilities and Other Credits						
Liabilities:						
Accounts payable and accrued expenses	\$ 518,937	\$1,301,687				\$ 1,820,624
Deferred revenues	1,322,526	1,026,657				2,349,183
Deposits	72,531					72,531
Property tax advances	340,715					340,715
Notes and bonds payable					7,418,594	7,418,594
Compensating absences payable					1,177,138	1,177,138
Estimated liability for landfill closure and postclosure care costs					17,804	17,804
Due to other fund	839,537	141,929	29,337	0	0	1,010,803
	<u>3,094,246</u>	<u>2,470,273</u>	<u>29,337</u>	<u>0</u>	<u>8,613,536</u>	<u>14,207,392</u>
Fund Equity:						
Investment in general fixed assets				14,716,430		14,716,430
Reserve for:						
Debt service			3,243,122			3,243,122
By state statutes		2,330,743				2,330,743
Undesignated (Deficit)	(757,675)	0	0	0	0	(757,675)
	<u>(757,675)</u>	<u>2,330,743</u>	<u>3,243,122</u>	<u>14,716,430</u>	<u>0</u>	<u>19,532,620</u>
Total liabilities, other credits and fund equity	<u>\$2,336,571</u>	<u>\$4,801,016</u>	<u>\$3,272,459</u>	<u>\$14,716,430</u>	<u>\$8,613,536</u>	<u>\$33,740,012</u>

The accompanying notes are an integral part of these financial statements

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MUNICIPALITY OF YAUCO
COMBINED STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND EQUITY-ALL FUND TYPES
YEAR ENDED JUNE 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>			<i>Total Memorandum Only</i>
	<u>General</u>	<u>Special Revenues</u>	<u>Debt Service</u>	
Revenues:				
Taxes				
Property taxes	\$ 2,963,366	\$ 0	\$ 1,033,458	\$ 3,996,824
Municipal tax; volume of business	1,967,422			1,967,422
Grants and entitlements:				
State government and public corporations	3,072,366	902,351		3,974,717
Federal grants		1,073,829		1,073,829
Rental income	214,625			214,625
Licenses and permits	1,053,815			1,053,815
Fines, forfeits and penalties	4,655			4,655
Solid waste disposal	283,851			283,851
Interests	243,622			243,622
Others	366,130			366,130
	<u>10,169,852</u>	<u>1,976,180</u>	<u>1,033,458</u>	<u>13,179,490</u>
Total revenues				
Expenditures:				
General administration	5,246,662	1,092,491		6,339,153
Public safety	805,529	85,387		890,916
Education, culture and recreational	385,122	39,250		424,372
Public works and sanitation	3,236,317	167,441		3,403,758
Health and welfare	522,666	220,341		743,007
Capital outlays		1,936,433		1,936,433
Debt Service:				
Principal	138,000		343,000	481,000
Interest	60,196		284,683	344,879
	<u>10,394,492</u>	<u>3,541,343</u>	<u>627,683</u>	<u>14,563,518</u>
Total Expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(224,640)</u>	<u>(1,565,163)</u>	<u>405,775</u>	<u>(1,384,028)</u>
Other financing sources (uses):				
Operating transfer in	105,099			105,099
Operating transfer out		(105,099)		(105,099)
Loans proceeds	0	1,964,091	0	1,964,091
	<u>105,099</u>	<u>1,858,992</u>	<u>0</u>	<u>1,964,091</u>
Total other financing sources				
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing	<u>(119,541)</u>	<u>293,829</u>	<u>405,775</u>	<u>580,063</u>
Fund balance at beginning of year	<u>(638,134)</u>	<u>2,036,914</u>	<u>2,837,347</u>	<u>4,236,127</u>
Fund balance at year end	<u>(\$757,675)</u>	<u>\$2,330,743</u>	<u>\$3,243,122</u>	<u>\$4,816,190</u>

The accompanying notes are an integral part of these financial statements

MUNICIPALITY OF YAUCO
COMBINED STATEMENTS OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001

	GENERAL FUND			DEBT SERVICE FUND		
	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues:						
Taxes						
Property taxes	\$2,868,767	\$2,963,366	\$ 94,599	\$481,725	\$1,033,458	\$551,733
Municipal tax, volume of business	1,900,000	1,967,422	67,422			
Grants and entitlements:						
State governmental and public corporations	3,104,548	3,072,366	(32,182)			
Rental income	210,000	214,625	4,625			
Licenses and permits	1,295,000	1,053,815	(241,185)			
Fines, forfeits and penalties	5,000	4,655	(345)			
Solid waste disposal	120,425	283,851	163,426			
Interests	360,000	243,622	(116,378)			
Others	658,611	366,130	(292,481)	0	0	0
Total revenues	10,522,351	10,169,852	(352,499)	481,725	1,033,458	551,733
Expenditures:						
General administration	5,613,304	5,246,662	366,642			
Public safety	805,546	805,529	17			
Education, culture, and recreational	385,197	385,122	75			
Public works and sanitation	3,238,420	3,236,317	2,103			
Health and welfare	522,670	522,666	4			
Debt service:						
Principal	138,000	138,000	0	307,609	343,000	(35,391)
Interest	62,931	60,196	2,735	174,116	284,683	(110,567)
Total Expenditures	10,766,068	10,394,492	371,576	481,725	627,683	(145,958)
Excess (deficiency) of revenues over (under) expenditures	\$ (243,717)	(224,640)	19,077	\$ 0	\$405,775	\$405,775

The accompanying notes are an integral part of these financial statements

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MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Yauco (the Municipality) was founded on February 29, 1756. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Assembly, which has seventeen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

The Municipality keeps its accounting records on a cash basis to conform with the budgetary requirements of the Commonwealth of Puerto Rico. The general purpose financial statements included herein were prepared on the modified accrual basis as required by generally accepted accounting principles applicable to governmental units, except for the use of the encumbrance method of recognizing expenditures and accounts payable in the general fund. The following is a summary of the most significant accounting policies followed in the preparation of the Municipality's general purpose financial statements (the financial statements):

A. REPORTING ENTITY

The Municipality's general purpose financial statements include all of the funds and account groups relevant to the operations of the Municipality of Yauco. The Municipality receives funding from local, state and federal government sources and must comply with the requirements of these entities. However, the Municipality is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since the Mayor and the Members of the Municipal assembly are elected by the citizens of the Municipality and have decision making authority.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. FUND ACCOUNTING

The accounts of the Municipality are presented on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate, set of self-balancing accounts which are comprised of each fund assets, liabilities, fund equity, revenues and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, in the following governmental funds types:

General fund – The general fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt service fund – The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Account groups – The account groups are used to account for fixed assets and long-term liabilities which are not accounted for in the respective governmental funds.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Long-term liabilities expected to be financed from governmental fund types resources are accounted for in the General long-term debt account group, not in the governmental fund. This account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

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

D. FIXED ASSETS

Fixed assets used in the Municipality's operations are accounted for in the General fixed assets account group rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the government. No depreciation is provided on general fixed assets.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FIXED ASSETS (CONTINUED)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset life are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

E. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Except for the use of the encumbrance method of accounting in the general fund, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

1. Property taxes – Property taxes are considered “measurable” when in the hands of the CRIM and are recognized as revenue at that time. Anticipated property tax funds are recorded as a liability.
2. Grants and entitlements – Are recognized following the contractual and legal requirements of the diverse individual programs. Essentially, there are two types of these revenues. In the first, the resources must be expended for the purpose for which they were granted prior than revenues can become available and recognized. In the other type, the resources are virtually unrestricted in terms of the purpose of the expenditures and are usually refundable only if the specific and prescribed requirements are not met in advance. These resources are recognized as revenues if they are measurable and available, if not, they are recorded when received.
3. Licenses and permits, service charges, fines and forfeits, interest, and miscellaneous resources are recorded as revenue when received if they are not susceptible to accrual.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. BASIS OF ACCOUNTING (CONTINUED)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued (see note 1H); and (2) principal and interest on general long-term debt which are recognized when due.

F. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for the General and Debt service funds. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
2. On or before May 31, the Mayor submits to the Municipal Assembly a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
3. Public hearings are conducted at the Municipal Assembly Room to obtain citizens comments.
4. Prior to June 13, the budget is legally enacted through passage of an ordinance.
5. The Municipal Assembly approves, by ordinance, budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Assembly.
6. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

7. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

G. ENCUMBRANCES

Encumbrance accounting is used for the government funds. Under the encumbrance system purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. It is employed as an extension of formal budgetary integration in the General and Debt service funds. Encumbrances outstanding at year end are recognized as expenditures and accounts payable although they do not constitute expenditures or liabilities in the general fund.

H. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General long-term debt account group. No expenditure is reported for these amounts. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. COMPENSATED ABSENCES (CONTINUED)

Employees' maximum allowed vacations and vested sick benefits are accounted for in the General long-term debt account group.

I. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection for catastrophic losses. Also, the Municipality's principal officials are covered with fidelity bonds. The Secretary of the Department of the Treasury of Puerto Rico is the agent authorized to place all of the Municipality's insurance coverages. Corresponding premiums payable by the Municipality are withheld by the Department of the Treasury of Puerto Rico from the advances of intergovernmental revenues and property taxes made by the CRIM.

J. INVENTORIES

The purchase of inventory of construction materials, supplies, spare parts, and medicines and drugs are recorded as expenditure in the accompanying general purpose financial statements. No inventory of these items is recorded in the accompanying combined balance sheets because the absence of related accounting records and related procedures.

K. FUND EQUITY

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

L. TOTAL COLUMNS ON COMBINED STATEMENT-OVERVIEW

Total columns on the combined statements – overview are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for transfer of funds, goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the combined balance sheets.

N. LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, such as accrued vacations, only that portion of such obligations is reported in the general long-term debt account group, by increasing the affording "amount to be provided for retirement of general long-term debt".

2. CASH

The Director of Finance of the Municipality is responsible for investing the available resources in deposits and other short term investments. The deposits are made combining all the Municipality's available funds except those in hands of the Department of the Treasury or those pertaining to federal financial assistance programs which are deposited in separate checking accounts. Interest earned on municipal funds, except funds related to federal financial assistance programs, are transferred and used in the general fund.

The Municipality is required to deposit on institutions authorized by the Department of the Treasury of the Commonwealth of Puerto Rico to be a depository of public funds. The authorized depository institutions are required to maintain federal insurance and provide adequate collateral to the Department of the Treasury, who maintains it on custody.

3. PROPERTY TAX

According to the Public Act No. 83, enacted on August 30, 1991, known as Act of Municipal Property Tax, the Municipal Revenues Collection Center (CRIM) is responsible for the assessment, administration and collection of all the real and personal property located in the Municipality.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAX (CONTINUED)

Annually, the CRIM notifies the Municipality the estimated basic and additional special taxes to be collected during the next fiscal year and advances the Municipality the basic tax. These advances are amortized through the subsequent collection of the basic property tax and the related debt or receivable is recorded in the General fund when CRIM notify to the Municipality of the final settlement.

Property taxes are levied annually over the assessed value of the property at the beginning of the calendar year, which amounts to 5.37% for the personal property and 7.37% for the real property. The assessed valued of real property evolves from 1957 estimated values and of personal property from the current value at the date of the assessment. The Municipality grant business with a volume of less than \$150,000 full personal property tax exemption up to \$50,000 of the assessed value of the property.

Also, property tax laws grant, under certain circumstances, a tax exemption for the first \$15,000 of the assessment value of the principal residence occupied by its owner. Nevertheless, the Department of the Treasury pays to the Municipality the basic tax related to those \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemption. During the year ended June 30, 2001, the Municipality received \$541,693 from the real property tax exemption. Of the total tax imposed, 1.03% belongs to the CRIM and the remaining to the Municipality. From this amount, 3.31% for personal property and 5.31% for real property is known as the basic tax and is recorded in the General fund. The remaining 1.03% is known as the additional special tax which is used to pay the public debt and is retained by the CRIM for such purposes. The additional tax is recorded as revenue in the Debt service fund when collected by the CRIM and reported to the Municipality.

At June 30, 2001, the outstanding debt related to property taxes advances amount to \$340,715 and correspond to the final settlement, fiscal year ended June 30, 1999. The Municipality is pending of the approval of the financing requested to CRIM under the Act No. 42 to restructure this debt to a 10 year term.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAX (CONTINUED)

During the year ended June 30, 2001 the Municipality had recognized a debt of property advances of \$81,251 based on a preliminary settlement received from CRIM. However, such estimate was not realized and instead the settlement resulted in a surplus of \$13,348. Since this was a change in estimate the effect of eliminate this debt is reported in 2001 property tax revenues.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the CRIM.

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1st and January 1st of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date.

The Municipality levied and collected during the year ended June 30, 2001, \$1,322,526 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets.

5. DEFERRED REVENUES

At June 30, 2001, an account receivable and a related deferred revenue amounting to \$1,026,657 was recorded in the Special revenue fund representing unearned federal funds granted. The Municipality receives pass-through federal funds under the Small Cities Block Grant Program. The Office of the Commissioner of Municipal Affairs is the grantor of these funds.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

6. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and informed by the CRIM (see note 3). The CRIM retains these collections for the payment of principal and interest for bonds and notes issued by the Municipality. The principal and interest are paid by the Government Development Bank for Puerto Rico from the funds transferred by the CRIM.

7. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements.

The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Special revenue fund.

8. CHANGES IN GENERAL FIXED ASSETS

The following is a summary of changes in the general fixed assets account group:

<i>Description</i>	<i>Restated Balance at July 1, 2000</i>	<i>Additions</i>	<i>Withdrawals</i>	<i>Balance at June 30, 2001</i>
Land	\$ 3,734,032	\$ 0	\$ 0	\$ 3,734,032
Building and improvements	5,594,481			5,594,481
Machinery and equipment	<u>5,373,489</u>	<u>34,127</u>	<u>(19,699)</u>	<u>5,387,917</u>
	<u>\$14,702,002</u>	<u>\$34,127</u>	<u>\$(19,699)</u>	<u>\$14,716,430</u>

MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2001

8. CHANGES IN GENERAL FIXED ASSETS (CONTINUED)

The restated balance at July 1st, 2000, considers \$61,786 which represented the difference between the adjusted computerized records of the Municipality and the prior reported amount. (See third paragraph of the independent auditor's report).

9. GENERAL LONG-TERM DEBT

The following is a summary of the general long-term debt transactions for the year ended June 30, 2001.

Balance at July 1 st , 2000	\$5,873,844
Additions	2,067,000
Repayment of principal	<u>(522,250)</u>
Balance at June 30, 2001	<u>\$7,418,594</u>

The general long-term at June 30, 2001 is as follows:

A. Bonds:

1984 - \$171,000, due in annual principal installments of \$3,000 to \$12,000 through January 1, 2008, plus interest at 5%	\$ 74,000
1989 - \$400,000, due in annual principal installments ranging from \$10,000 to \$50,000 through July 1, 2004, plus interest ranging from 6.23% to 8.60%	170,000

MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2001

9. GENERAL LONG-TERM DEBT (CONTINUED)

A. Bonds: (Continued)

1996 - \$4,585,000 due in annual principal installments ranging from \$100,000 to \$435,000 through July 1, 2015, plus interest at 4.70% to 6.58%

4,000,000

4,244,000

B. Notes:

\$2,900,000 special obligations from 1986, due in annual installments of \$138,000 through July 1, 2006, plus interest at variable rates estimated at 8.50%.

828,000

Unsecured commercial loan payable to bank in monthly installments of \$3,750 plus interests at 7.75% through November 18, 2001.

22,594

\$195,000 general obligation note of 1999, due in annual principal installments ranging from \$24,000 to \$33,000 through January 1st, 2005 plus interest at 4.75%

120,000

\$1,210,000 general obligation note of 2001 due in annual principal installments ranging from \$205,000 to \$280,000 through July 1, 2005, plus interest at 6.13% to 8.0%.

1,210,000

\$180,000 general obligation note of 1999, due in annual principal installments ranging from \$22,000 to \$30,000 through January 1st, 2006 plus interest at 4.75%.

137,000

MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2001

1. GENERAL LONG-TERM DEBT (CONTINUED)

\$857,000 general obligation note of 1999 due in annual principal installments through a term of twenty five years after the date of disbursement be completed plus interest at 4.75%. As of June 30, 2001 this loan is substantially disbursed

857,000
3,174,594
\$7,418,594

Proceeds of general obligations are recorded in the Special Revenue Funds and are restricted to the use for which they are approved.

The maturity of general obligations is as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2002	\$ 640,874
2003	662,280
2004	694,280
2005	739,280
2006	693,280
Thereafter	<u>3,988,600</u>
	<u>\$7,418,594</u>

10. LEASES

The Municipality leases public sites, equipment, building space and transportation vehicles under operating leases agreements with terms no longer than one year. Total income from leases during the year ended June 30, 2001 amounted to \$214,625.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

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

Members who have attained at least 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 completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, 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.

Members who have attained at least 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 completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, 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 YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT SYSTEM (CONTINUED)

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.

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 Bank is required by the same statute to contribute 9.275% of the participant's gross salary.

Defined Contribution Plan

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

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

The Bank is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT SYSTEM (CONTINUED)

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of \$10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions to the above mentioned plans during the year ended June 30, 2001 amounted to approximately \$289,653. This amount represented 100% of the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2001, a copy of which can be obtained from the Retirement System.

12. COMMITMENTS AND CONTINGENCIES

At June 30, 2001, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

MUNICIPALITY OF YAUCO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. OPERATING LEASES

The Municipality maintains equipment and facilities under various operating leases. Most of the leases have renewable options from year to year.

The rent expense for all operating leases for the year ended June 30, 2001, amounted to \$266,534.

14. CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Municipality of Yauco place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$17,804 as of June 30, 2001, which is based on 2% usage (filled) of the landfill. It is estimated that an additional \$872,420 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2050). The estimated total current cost of the landfill closure and postclosure care (\$890,224) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2001. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The Municipality of Yauco issued the ordinance 89, series 2001-02 to make annual contributions from general fund budget to finance closure and postclosure care. The remaining portion of anticipated future inflation costs and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

MUNICIPALITY OF YAUCO

YEAR ENDED JUNE 30, 2001

SINGLE AUDIT SECTION

MUNICIPALITY OF YAUCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF YAUCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2001

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
U.S. Department of Housing and Urban Development:		
Passed through the Puerto Rico Office of Commissioner of Municipal Affairs-State Block Grant Program – Small Cities Program –	14.219	\$ 829,735
Passed through the Puerto Rico Department of the Family: Emergency Shelter Grant Project Direct Program: Section 8 – Low income Housing Assistance Payment Program	14.231	3,748
	14.856	<u>125,344</u>
Total US Department of HUD		<u>958,827</u>
Department of Health and Human Services:		
Passed through Administration for Children and Families Family Preservation and Support Service	93.556	<u>10</u>
Federal Emergency Management Agency:		
Passed through GAR Disaster Assistance	83.516	<u>221,328</u>

MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
<u>Department of Justice:</u>		
Passed through the Puerto Rico Department of Justice Byrne Formula Grant Program Local Law Enforcement Block Grant	16.579 Not available	37,153 26,446
Pubic safety and community Oriental Publishing Service	16.710	<u>106,871</u>
Total Department of Justice		<u>170,470</u>
U.S. Department of Agriculture		
Passed through the Government Development Bank of Puerto Rico Community Facilities Loans and Grants (Note 3)	10.766	<u>857,000</u>
		<u>\$2,207,635</u>

MUNICIPALITY OF YAUCO

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

YEAR ENDED JUNE 30, 2001

1. GENERAL

The accompanying Schedule of expenditures of federal awards presents the activity of all the federal financial assistance programs of the Municipality of Yauco (the Municipality). The Municipality's reporting entity is defined in note 1 to the Municipality's general purpose financial statements. Federal awards received directly from federal agencies as well as federal award passed through other government agencies are included on the schedule and under the special revenue funds on the general purpose financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in note 1 to the Municipality's general purpose financial statements.

3. COMMUNITY FACILITIES LOANS AND GRANTS

The federal expenditure of this program represent the use of loan proceed for the rebuilding of City Hall and do not represent cash award for the year. This loan is passed through the Government Development Bank of Puerto Rico and issued by U.S. Department of Agriculture.

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



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Partners:

*Juan E. Román Toro, MBA, CPA
José D. Román Toro, CPA*

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

Honorable Mayor and Members
of the Municipal Assembly
Municipality of Yauco
Yauco, Puerto Rico

We have audited the general purpose financial statements of **Municipality of Yauco, Puerto Rico**, as of and for the year ended June 30, 2001 and have issued our report there on dated December 17, 2001. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and Puerto Rico, 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 Municipality of Yauco 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the Section II of the accompanying schedule of findings and questioned costs.

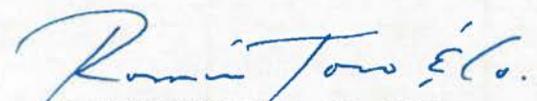
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED):

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Yauco 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 Municipality of Yauco'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 Section II of the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely 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 all of the reportable conditions described in the accompanying schedule of findings and questioned costs are a material weakness.

This report is intended solely for the information of the 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.


ROMAN TORO & CO., CSP

December 17, 2001
Yauco, Puerto Rico

License No. 35
Expires December 1, 2002

Stamp #1766360 was affixed to the
original of this report

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



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Partners:

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José D. Román Toro, CPA*

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

Honorable Mayor and Members
of the Municipal Assembly
Municipality of Yauco
Yauco, Puerto Rico

Compliance

We have audited the compliance of **Municipality of Yauco, Puerto Rico**, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Municipality of Yauco, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Yauco, Puerto Rico management. Our responsibility is to express an opinion on Municipality of Yauco, Puerto Rico compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with the auditing standards generally accepted in the United States of America and Puerto Rico; 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 State and 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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Yauco, Puerto Rico compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Yauco, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED):

We were unable to obtain sufficient documentation supporting the compliance of Municipality of Yauco with State Block Grant Programs Small Cities Programs, CFDA No. 14.228, regarding financial reporting nor were we able to satisfy ourselves as to Municipality of Yauco's compliance with this requirement by other audit procedures.

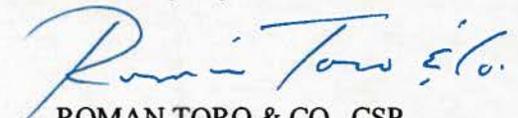
In our opinion, except for the effects of such noncompliance, if any, as might have been determine had we been able to examine sufficient evidence regarding Municipality of Yauco's compliance with the requirements of State Grant Program Small Cities Programs, CFDA No. 14.228, regarding financial reporting the Municipality of Yauco Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 7, 8, 9 and 10.

Internal Control Over Compliance

The management of Municipality of Yauco, Puerto Rico 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 Municipality of Yauco, Puerto Rico'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.

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

This report is intended solely for the information of the 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.


ROMAN TORO & CO., CSP

December 17, 2001
Yauco, Puerto Rico

License No. 35
Expires December 1, 2002

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MUNICIPALITY OF YAUCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2001

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Reportable condition(s) identified that are not considered to be material weakness(es)?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

yes no

Reportable condition(s) identified that are not considered to be material weakness(es)?

yes none reported

Type of auditor's report issued on compliance for major programs

Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228
10.766

State Block Grant Programs Small Cities Programs
Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

MUNICIPALITY OF YAUCO

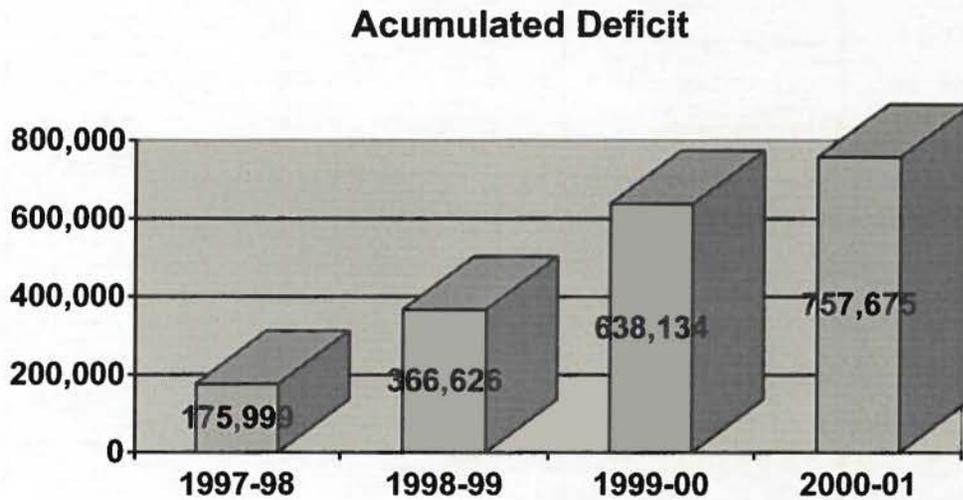
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

1. General fund deficit

As of June 30, 2001 the Municipality closed with an accumulated deficit of \$757,675. This is the fourth consecutive year that the Municipality closed its operations reporting deficit. The deficit has increased since first reported during fiscal year ended June 30, 1998 by a 393% as illustrated below.



The deficit is caused by the overestimation of revenues and by the incurrence of obligations without resources available.

The Article 7.011(a) of Autonomous Municipal Act (Law 81), as amended, stay that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.

The deficit reported by Municipality of Yauco could not continue growing without harming the basic governmental services to its citizens. So we strongly recommend take the necessary measures to stop this trend.

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. City Hall reconstruction project is overdrafted by \$29,615.

The City Hall reconstruction project is overdrafted by \$29,615 as presented in the following analysis:

Source of funds:		
Loan - \$4,585,000		\$ 260,000
Loan RD - \$857,000		<u>857,000</u>
		1,117,000
Obligations issued		
	<u>P.O. #</u>	<u>Amount</u>
	22442	\$ 42,580
	33369	56,471
	33662	72,400
	33826	88,549
	Fin 257	(30,700)
	Fin 262	30,700
	33828	896,451
	Fin 263	<u>(30,700)</u>
		<u>1,125,751</u>
Excess of obligated funds over sources of funds		(8,751)
Invoices received for change orders without its corresponding purchase order issued		<u>(20,864)</u>
Total amount expended in excess of funds available		<u>\$ (29,615)</u>

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2. City Hall reconstruction project is overdrafted by \$29,615, continued

The article 8.004(b) of the Law 81 state that the Municipality can not encumber funds in excess of funds authorized for a designated project. Also in chapter IV section 9(2) of the Regulation state that no disbursement of purchase order can be issued if there is no credit available on budget.

The overdraft is created by the changes order accepted without an identified source of funds and by the transfer of \$30,700 from loan of \$857,000 without credit available because the original obligation was made by \$39,451 in excess of total loan amount granted (P.O. #33828 \$896,451 versus \$857,000 total loan granted). Also in last year Single Audit report we pointed out that \$280,000 received from insurance corresponding to damages reported on city hall were expended on operating expenditures instead to be used for what it were claimed. (Finding 2, Section II).

This condition create that as of the date of our audit the Government Development Bank of Puerto Rico is holding the last funds requisition of \$27,875 because the total requisitions exceed the total loan granted by \$8,751. The Municipality has been unable to pay the project contractors on time because of this condition. This may cause future litigations. We recommend take corrective action on this matter by identifying additional sources of funds to complete the project.

3. Payments made although the pre-audit officer denied certifying the payment voucher.

The following payments were made although the pre-audit officer denied certifying the payment voucher.

<i>Purchase Order</i>			<i>Payment Voucher</i>			
<i>Reference</i>	<i>Date</i>	<i>Amount</i>	<i>Date</i>	<i>Check #</i>	<i>Payee</i>	<i>Amount</i>
Fin 387	2/26/01	\$31,300.00	5/03/01	30280	Reflectivos del Sur, Inc.	\$31,300.00
Fin 1463	3/13/01	38,947.68	3/13/01	29750	Proud Landscaping, Inc.	35,052.91
Fin 1136	4/04/01	33,263.02	4/09/01	30017	Proud Landscaping, Inc.	29,936.72

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. **Payments made although the pre-audit officer denied certifying the payment voucher, continued**

Payment to Reflectivos del Sur, Inc., was for printed material installed by the Municipality to labeling the downtown streets. The pre-audit officer document that such transaction represent materials and it should be made through public bid in accordance to Law 81 since it exceed the limit of \$10,000.

Payments to Proud Landscaping, Inc., are part of a project for the embellishment the Municipality called "Yauco Reverdece" through the design and construction of gardens at several sites. The Municipality asked for quotations to access the overall cost of the project. The proposals received were as follows:

<u>(Companies name omitted)</u>	<u>Amount</u>
Company 1	\$222,828.50
Company 2	120,474.00
Company 3	146,140.50
Selected company	103,493.77

The pre-audit officer argued that this project was split into small projects to avoid the public bid. We concur with that interpretation since all the bidder submitted quotations for the four sites requested and priced the project as a whole.

The Article 8.004 of Law 81 state that the disbursements of public funds only can be made the concepts authorized by Law and its regulations.

In Section 7, Part 1 of Chapter IV of the Regulation state that the finance director shall not approve for payment any document if it is not certified by the pre-audit unit. Also, in Section 3, Chapter VIII of such regulations state that all related purchases must be grouped into one to determine the proper procurement procedures to follow. In the same section state that under no circumstances the Municipality is allow to split the purchase with the intention of avoid the public bid requirement. In other hand, in Article 10.001 of the Law 81 state the limits for public bid which are \$40,000 for construction and public improvements projects and \$10,000 for other purchases of goods and services.

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

3. Payments made although the pre-audit officer denied certifying the payment voucher, continued

There are other two disbursements that were tested by us as part of our selection of sample of transactions that, although were certified by the pre-audit officer, these contain the same finding. These are the following:

<i>Purchase Order</i>			<i>Payment Voucher</i>			
<i>Reference</i>	<i>Date</i>	<i>Amount</i>	<i>Date</i>	<i>Check #</i>	<i>Payee</i>	<i>Amount</i>
Fin 1456A	3/09/01	\$21,417.93	4/25/01	30151	Proud Landscaping, Inc.	\$19,276.14
Fin 1456B	3/09/01	9,268.07	4/25/01	30150	Proud Landscaping, Inc.	8,341.26

The transactions above detailed were from special revenues funds and its grantors might require the returns of such funds if it is the final determination that such disbursements were not made in compliance with the existing laws and regulations. Total amount questioned in this finding is \$134,196.70.

We recommend the adherence to prescribed procedures of requiring a certification from pre-audit officer before the Finance Director approve for payment any document.

4. No evidence was found of sites where purchased asphalt was landed.

The following transactions were for purchases of asphalt that was picked up at production plant but the Municipality could not provide us evidence of which sites were asphalted.

<i>Source of funds</i>	<i>Invoice Date</i>	<i>Check Date</i>	<i>Check Number</i>	<i>Name</i>	<i>Amount</i>	<i>Quantity</i>
General budget	10/23/00	1/23/01	2918	Asfalto del Oeste	\$10,721.51	306.33 tons
General budget	12/20/00	1/23/01	2918	Asfalto del Oeste	4,569.95	130.57 tons
General budget	10/31/00	1/23/01	2918	Asfalto del Oeste	<u>15,705.20</u>	448.72 tons
					<u>\$30,996.66</u>	

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

4. No evidence was found of sites where purchased asphalt was landed, continued

The supporting documents for these transactions lack of indication of which sites were asphalted and nobody in the Municipality could find evidence in other records nor have knowledge of the locations asphalted. These transactions should not be approved for payment without such certification.

We recommend a full investigation of this condition to be able to sustain these purchases were made in conformity with the existing laws and regulations and this material was used on behalf of the Municipality and not for other purposes.

The Article 8.005 of the Law 81 states that the Mayor in force during the date of these transactions is the responsible for the legality, accuracy, necessity and propriety of all expenditures submitted for payment by the directors of the administrative units. Section 6 of the Regulation state that the Director of Finance Department is the responsible for the verification that all disbursements made comply with the law and regulations requirements.

5. Accounting and reporting system

The Municipality of Yauco has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with generally accepted accounting principles and the related grant agreements.

The following conditions were noted:

- a. At present, transactions are accounted through manual and computerized systems. Although it was observed that reconciliations for revenues and expenditures are being made between these two systems, the balance sheet accounts in the computerized systems are not reconciled making the system unable to produce reliable financial statements.

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Accounting and reporting system, Continue

- b. The manual accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities and residual equities or balances, and changes there in.
- c. The accounting records do not provide for a segregation between expenditures incurred and encumbered. At year end the amount to be segregated as reserve for encumbrances is not considered to have a material effect on the general purpose financial statement.
- d. There are no adequate accounting controls to properly manage and keep accurate records of property and equipment. Accordingly, we were unable to ascertain as to amount of the Municipality's general fixed assets.
- e. No proper year-end closing procedure has been established to account for all transactions affecting all funds.
- f. Certain accounting information kept in various accounting records was also provided by other records or reports, resulting in extra work load to accounting personnel.
- g. The Department of Federal Funds keep a separated manual system of accounting for the programs they managed. This accounting is not incorporated in the main manual accounting system nor in the computer system. The accounting records and the financial reporting is not being monitored by the Finance Department, therefore, such accounting is not being reconciled with the Municipality accounting records. For the fiscal year ended June 30, 2001 the Department of Federal Funds could not provide us with financial reports nor accounting records for any of its federal grants they managed. *

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

5. Accounting and reporting system, Continue

A Municipality accounting system must make it possible to:

- a. present fairly and with full disclosure the financial position and results of financial operations of the fund and account groups of the governmental unit in conformity with generally accepted accounting principles; and
- b. determine and demonstrate compliance with finance, legal and contractual provisions.

In order to streamline the accounting and reporting system and provide proper closing of records and adequate and timely information, we recommend that the Municipality's system be modified through the implementation of the appropriate accounting records and procedures. It is extremely important that the Municipality plan to leave the manual system by working on the computer system adequately. The Municipality may start by posting the audited balance sheet accounts balances as of June 30, 2001 and go forward from this point.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

			Questioned Costs
Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219			
Population and Item Tested:			
	<i>Number</i>	<i>Dollars</i>	
Population Size	118	\$852,119	
Items tested	25	588,201	
Items not in compliance (Findings 6 and 7)	7	172,500	

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

	Questioned Costs
<p>Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219</p>	
<p>6. Condition: On November 28, 2000 the Municipality drew on SBGP program \$150,000 for the acquisition of a lot of land of 2.2810 cord to be used for a construction of a minor league baseball park. We noted the following deficiencies in the supporting documents examined and provided by the Municipality.</p> <p>1. Originally among its supporting documents we did not find the correspondence appraisal on which the purchase was based. After further investigation, we obtained knowledge of two existing appraisal which results are different by a huge amount.</p> <p>The first one was dated September 1, 1995 reporting a final estimated value of \$7,500. This appraisal was requested by the Municipality for the purpose to acquire the property through expropriation. This appraisal concluded that the highest and best use of the property is for agriculture. Also, state that the property was acquired by the seller during August 1993 for a price of \$2,041.48 per cord.</p> <p>The second one was addressed to property owner, dated June 5, 1999, reporting a final estimated value of \$179,300.</p> <p>We did not find evidence that this appraisal were requested by the Municipality. This appraisal concluded that the highest and best use of the property is for residential.</p> <p>Both appraisal are more than one year old to the date of transaction. It seems to us that the appraisal dated on September 1, 1995 is more reasonable because document the arguments to determine the highest and best use as agriculture. Also, the second appraisal was addressed to the land owner and not to the Municipality.</p>	

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

	Questioned Costs
<p>Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219</p>	
<p>6. Condition, Continued</p> <p>2. The property, as of the date of our examination, has not being registered at the PR Government Property record.</p> <p>3. The property scripture disclose a lien of \$122,395 against the property. There is no evidence that this lien was cancelled nor the Municipality could provide evidence on file of such cancellation. The disbursement was made for the total amount on behalf of the land owner letting the responsibility to cancel this lien to the property seller.</p> <p>Criteria: The fair value of this property is doubtful. The cost to be allowable must be the lower of the acquisition price or fair marked value of the property. Also, the real property management regulations state that property acquired by the Municipality must be recorded at the PR Government Property Record.</p> <p>Effect: This transaction represent questioned cost because the deficiencies reported. The best interest of the Municipality were not protected based on the way this transaction was handled.</p> <p>Cause: The Municipality officers by the date of transactions did not follow the prescribed procedures for the acquisition of real property</p> <p>Recommendation: We recommend further investigation on this condition. Since this transaction was done by former administration, we recommend to actual administration to access the real value of property. Also we recommend to refer this case to the PR Comptroller Office for further investigation.</p>	<p align="right">150,000</p>

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

	Questioned Costs
<p>Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219</p>	
<p>7. Condition: During March 30, through May 24, 2001 the Municipality paid the amount of \$22,500 for administrative professional services that were not approved by OCAM because the budgetary item for administrative expenses did not have available credit. Also, some of the services paid with SBGP funds belonged to Section 8 program.</p> <p>Criteria: The cost in order to be allowable under an award must:</p> <ul style="list-style-type: none"> • Be allocable to a particular cost objective of the federal award • Be authorized in the contract award. <p>Effect: \$22,500 of cost is questioned as result of failing to meet the requirement of allowability and cost allocation.</p> <p>Cause: The Municipality did not follow the prescribed procedures by OCAM for reimbursement of costs and requisition of funds. The payments were done despite OCAM did not give authorization meaning that the Municipality used monies received for other cost objective to pay these services.</p> <p>Recommendation: The responsible Municipality officer should be reminded of the procedures in place to ensure unauthorized charges to federal financing program are not incurred.</p>	<p>22,500</p>
<p>8. Condition: The Municipality could not provide for audit program's trial balances, general ledger and other accounting records and reports necessary to report the program financial position and the result of its operation.</p> <p>Criteria: The article 8.01 of the Law state that the Municipality's accounting system must provide for complete information about the results of operation, cash control and the accounting for all its funds.</p>	

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

	Questioned Costs
<p>Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219</p>	
<p>8. Condition, Continued</p> <p>Effect: The Municipality lack of an accounting or information system that provides for the reliable processing of financial and performance information for Federal awards. Therefore, the Municipality does not comply with the Reporting requirement described in the Compliance Supplement.</p> <p>Cause: The Municipality is not performing the necessary procedures to comply with the criteria described above.</p> <p>Recommendation: A proper accounting system must be implemented for the program in order to account for all its financial activities segregated by federal award, project and cost objective.</p>	
<p>9. Condition: The funds received from OCAM were not disbursed in the same cost objective distribution these were requested.</p> <p>Criteria: The grant agreement state that the Municipality will make periodic funds requested to OCAM for incurred costs and that the Municipality must disburse such advances in the same cost distribution these were requested.</p> <p>Effect: The Municipality is not in compliance with clause of grant agreement and funds disbursed in no compliance with might be disallowed by OCAM.</p>	*

MUNICIPALITY OF YAUCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2001

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

	Questioned Costs
Department of Housing and Urban Development State Block Grant Programs Small Cities Programs (SBGP) CFDA No. 14.219	
9. Condition, continued Cause: The Municipality is not performing the necessary procedures to comply with the criteria described above. Recommendation: The responsible Municipality officer should be reminded of the procedures in place to ensure funds received from OCAM are disbursed in the same distribution these were requested for.	
Total HUD	<u>172,500</u>
Total Department of Housing and Urban Development	<u>\$172,500</u>

MUNICIPALITY OF YAUCO

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)**

YEAR ENDED JUNE 30, 2001

**Department of Housing and Urban Development
State Block Grant Programs Small Cities
CFDA No. 14.219**

Finding 2000 – 5

Condition: Trial balances, general ledger and related accounting records were not provided for the audit. Differences on cash balance was reported.

Current status: Condition still prevail.

Finding 2000 – 6

Condition: Net charges amounted \$13,385.97 could not be allocated to a particular cost objective or project.

Current status: Condition still prevail.

**Federal Emergency Management Agency
Public Assistance – CFDA 83-516
Grant Disaster Assistance Hurricane George**

Finding 1999 – 6

Condition: Amount of \$6,500 paid not allocable to a particular project.

Current status: No corrective action has been taken, neither FEMA has issued a waiver on this finding.

Finding 1999 – 7

Condition: Amount of \$11,880 paid for cost that were recovered from the insurance.

Current status: No corrective action has been taken, neither FEMA has issued a waiver on this finding.

MUNICIPALITY OF YAUCO

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)**

YEAR ENDED JUNE 30, 2001

**Federal Emergency Management Agency
Public Assistance – CFDA 83-516
Grant Disaster Assistance Hurricane George (Continued)**

Finding 1999 – 8

Condition: Monies expended on administrative costs exceed by \$35,621 the amount approved by FEMA.

Current status: No corrective action has been taken, neither FEMA has issued a waiver on this finding.

**Federal Emergency Management Agency
Public Assistance – CFDA 83-516
Grant Disaster Assistance Hurricane Hortense**

Finding 1999 – 9

Condition: There is an unexpended balance of \$146,697 in cash related to disaster assistant program of Hurricane Hortense. The Municipality could not provide evidence that relate such funds with an specific approved project nor any granted extension of time.

Current status: The finding does not warrant further action. The Municipality provide us with a report of project worksheet (PW) in progress and relate to the cash available on account. The accounting records were updated.

**ESTADO LIBRE ASOCIADO DE PUERTO RICO
GOBIERNO MUNICIPAL DE YAUCO
APARTADO 1
YAUCO PR 00698
TEL: 1(787) 856-1345**

CORRECTIVE ACTION PLAN

December 20, 2001

Department of Housing and Urban Development
Office of Municipal Affairs (OCAM)

Municipality of Yauco respectfully submits the following corrective action plan for the year ended June 30, 2001.

Name and address of independent public accounting firm:

ROMAN TORO & CO., CSP
Certified Public Accountants
PO Box 3043
Yauco PR 00698-3043

Audit period: Year ended June 30, 2001

The findings from the June 30, 2001 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

Reportable Conditions

1. General fund deficit

Recommendation: Necessary measures should be taken to stop the trend of reporting operating deficit. This is the fourth consecutive year that the Municipality closed its operations reporting deficit. The deficit has increased since then by a 393%.

Action Taken: Our administration began its four years term during January 2001 and most of accumulated deficit belong to the former administration. As new elected administration our primary concern is to work on amortize and virtually eliminate the actual deficit in the next two fiscal years. Therefore, we made an appropriation of \$350,000 in the 2001-02 budget to amortize the reported deficit. This measure along with planned economies and projected revenues increases should give us the opportunity to deal effectively with the accumulated deficit of \$757,675 reported as of June 30, 2001.

2. **Recommendation:** Additional sources of funds must be identified to complete City Hall reconstruction project since this report an overdraft of \$29,615.

Action Taken: We identified additional funds for \$29,414.39 from Revenue in Excess of Redemption Fund (Act 28, 2001). The following purchases order were issued to encumber those funds:

D Fin 4289	\$22,864.39
D Fin 4321	<u>6,550.00</u>
	<u>\$29,414.39</u>

3. **Recommendation:** The adherence to prescribed procedures of requiring a certification from pre-audit officer before the Finance Director approve for payment any document. The questioned transactions are disclosed in pages 40 through 42 of the Schedule of Findings and Questioned Costs.

Action Taken: We disagree with this findings. We understand that all mentioned payments were made in accordance with the applicable laws and regulations. Payment to *Reflectivos del Sur* for the amount of \$31,300 did not have to be subject to public bid because it is a public improvement project which limitation for public bid is \$40,000. Concerning to projects paid to Proud Landscaping, we were in no compliance with Section 1, Part III of Chapter VIII of Regulation over Basic Standards for Municipalities which state that no announcement on public bid will proceed until the Municipality has available budget credit. These projects were contracted as we were identifying the sources of funds. Therefore, no public bid is required since these represent public improvements and none of them were in excess of \$40,000.

4. **Recommendation:** Conduct an investigation to determine asphalt picked up at production plant for a cost of \$30,966.66 was used on behalf of the Municipality and not for other purposes.

Action Taken: This finding is because we were unable to provide evidence to our external auditors as to which sites were asphalted. These transactions were incurred during October 23 through December 20, 2000 when the Municipality was controlled by the former administration. Since the beginning of our administration in January 2001, we are keeping accurate records of sites asphalted. All transactions selected incurred during January through June 2001 were properly evidenced in our records and observed physically by our external auditors.

- 5. Recommendation:** In order to streamline the accounting and reporting system and provide proper closing of records and adequate and timely information, it is recommend that the Municipality's system be modified through the implementation of the appropriate accounting records and procedures.

Action Taken: We concur with the recommendation and we expect to have it implemented by the next fiscal year. The mayor obstacle on this matter is that we are limited by law to obtain other software than the installed by OCAM. Several times OCAM has visited the Municipality to bring technical support but the condition still prevail. During the next fiscal year we will working on the conversion of Municipality's accounting system to one that meet the criteria of the generally accepted accounting principles including the new accounting pronouncements GASB 34.

FINDINGS – FEDERAL AWARD PROGRAM AUDITS

Department of Housing and Urban Development State Block Grant Programs (SBGP) – CFDA No. 14.219

- 6. Recommendation:** Further investigation on the condition described. Since this transaction was done by former administration, it is recommended to actual administration to access the real value of property as well as to refer this case to the Puerto Rico Comptroller Office.

Action Taken: This transaction was performed by former administration and based on facts brought to our attention we concur that this event deserve further investigation. We are proceeding to refer this transaction to the PuertoRico Comptroller Office.

- 7. Recommendation:** The responsible Municipality officer should be reminded of the procedures in place to ensure unauthorized charges to federal financing program are not incurred.

Action Taken: The directors of federal funds and finance departments did not follow the instructions given as to pay these services from general fund since OCAM declined to authorize the use of SBGP funds due to lack of available credit from designated budgetary item. These funds (\$22,500) were returned to SBGP bank account effective December 13, 2001 to correct the condition reported by our external auditors.

8. **Recommendation:** A proper accounting system must be implemented for the program in order to account for all its financial activities segregated by federal award, project and cost objective.

Action Taken: The action described in finding 5 also apply to this finding.

9. **Recommendation:** The responsible Municipality officer should be remained of the procedures in place to ensure funds received from OCAM are disbursed in the same distribution these were requested for.

Action Taken: We concur with the recommendation and it was implemented effective immediately.

If you have questions regarding this plan, please call Hon. Abel Nazario, Mayor, at 787-856-1345.

Sincerely yours,



Hon. Abel Nazario
Mayor

