

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

**MUNICIPIO DE BARRANQUITAS**  
**AUDITORIA 2000-01**  
**30 DE JUNIO DE 2001**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SINGLE AUDIT REPORT  
Year ended June 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF BARRANQUITAS  
SINGLE AUDIT REPORT  
Year ended June 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL	
Independent Auditors' Report on General Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	1-2
General Purpose Financial Statements:	
Combined Balance Sheet - All Governmental Fund Types and Account Groups .....	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types .....	5
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Debt Service Funds .....	6
Notes to General Purpose Financial Statements .....	7-23
Schedule of Expenditures of Federal Awards .....	24
Notes to Schedule of Expenditures of Federal Awards .....	25
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards .....	26-27

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF BARRANQUITAS  
SINGLE AUDIT REPORT  
Year ended June 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program .....	28-29
 <b>AUDIT FINDINGS AND QUESTIONED COSTS</b>	
Schedule of Findings and Questioned Costs .....	30-40
Client's Response to Schedule of Findings and Questioned Costs .....	41
Summary Schedule of Prior Audit Findings and Questioned Costs .....	42- 45

**INDEPENDENT AUDITORS' REPORT  
ON THE GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

To the Honorable Mayor  
and the Municipal Assembly  
Municipality of Barranquitas  
Barranquitas, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Barranquitas (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 generally accepted auditing standards and the standards applicable to financial audits contained in *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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 4, the Municipality of Barranquitas has not maintained complete and adequate records of its general fixed assets and, accordingly, we were unable to obtain sufficient competent evidential matter with respect to the reported value of the Municipality's general fixed assets account group at June 30, 2001. Also, as disclosed in Note 10, at June 30, 2001, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and postclosure costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality estimates and recognizes the municipal solid waste landfill closure and postclosure care costs.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group and the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Barranquitas as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 11, the fund balances for the General, Special Revenue and Capital Project Funds, as of June 30, 2000, as previously reported in the general purpose financial statements, have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2001, 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Municipality, 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. This schedule is the responsibility of the management of the Municipality. 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.

San Juan, Puerto Rico  
November 29, 2001

Stamp No. 1766016  
was affixed to the  
original report

*Coll Benítez CPA Firm - PSC*

MUNICIPALITY OF BARRANQUETAS  
 COMBINED BALANCE SHEET  
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS  
 June 30, 2001

	Governmental Fund Types				Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets	General Long-Term Debt	
ASSETS AND OTHER DEBITS							
Cash	\$3,565,179	\$479,256		\$2,196,078	-	-	\$6,240,513
Cash held with fiscal agent	-	-	\$1,026,270	666,403	-	-	1,692,673
Accounts receivable:							
Due from other funds	121,720	-	-	-	-	-	121,720
Federal financial assistance	-	28,849	-	-	-	-	28,849
Other	714,175	-	-	428,541	-	-	1,142,716
General fixed assets	-	-	-	-	\$13,206,004	-	13,206,004
Amount available in Debt Service Fund	-	-	-	-	-	\$1,026,270	1,026,270
Amount to be provided for:							
Retirement of general long-term debt obligations	-	-	-	-	-	1,159,730	1,159,730
Retirement of special long-term debt obligations	-	-	-	-	-	542,005	542,005
Payment of accrued vacations and sick leave	-	-	-	-	-	604,696	604,696
Claims and judgements	-	-	-	-	-	40,000	40,000
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$4,401,074</b>	<b>\$508,105</b>	<b>\$1,026,270</b>	<b>\$3,291,022</b>	<b>\$13,206,004</b>	<b>\$3,372,701</b>	<b>\$25,805,176</b>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF BARRANQUITAS  
 COMBINED BALANCE SHEET  
 ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS  
 June 30, 2001

	Governmental Fund Types			Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Assets		General Long-Term Debt
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	290,886	-	-	\$126,126	-	-	417,012
Due to other funds	-	\$84,379	-	37,341	-	-	121,720
Due to other governmental entities	596,511	-	-	-	-	-	596,511
Deferred volume of business tax	450,184	-	-	-	-	-	450,184
Deferred federal financial assistance revenue	-	-	-	44	-	-	44
General long-term debt obligations	-	-	-	-	-	\$2,186,000	2,186,000
Special long-term debt obligations	-	-	-	-	-	542,005	542,005
Accrued vacations and sick leave	-	-	-	-	-	604,696	604,696
Claims and judgements	-	-	-	-	-	40,000	40,000
<b>TOTAL LIABILITIES</b>	<b>1,337,581</b>	<b>84,379</b>	<b>-</b>	<b>163,511</b>	<b>-</b>	<b>3,372,701</b>	<b>4,958,172</b>
<b>FUND EQUITY</b>							
Investment in general fixed assets	-	-	-	-	\$13,206,004	-	13,206,004
Fund balance:							
Reserved for encumbrances	191,004	-	-	-	-	-	191,004
Reserved for debt service	-	-	\$1,026,270	-	-	-	1,026,270
Unreserved:							
Designated for future years expenditures	-	423,726	-	3,127,511	-	-	3,551,237
Undesignated	2,872,489	-	-	-	-	-	2,872,489
<b>TOTAL FUND EQUITY</b>	<b>3,063,493</b>	<b>423,726</b>	<b>1,026,270</b>	<b>3,127,511</b>	<b>13,206,004</b>	<b>-</b>	<b>20,847,004</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$4,401,074</b>	<b>\$508,105</b>	<b>\$1,026,270</b>	<b>\$3,291,022</b>	<b>\$13,206,004</b>	<b>\$3,372,701</b>	<b>\$25,805,176</b>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF BARRANQUITAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 ALL GOVERNMENTAL FUND TYPES  
 Year ended June 30, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$1,153,655	-	\$388,964	-	\$1,542,619
Volume of business tax	595,653	-	-	-	595,653
Licenses and permits	94,812	-	-	-	94,812
Intergovernmental revenues	4,610,531	\$178,326	-	\$681,085	5,469,942
Federal financial assistance	-	555,753	-	1,531,356	2,087,109
Rent of property	62,350	-	-	-	62,350
Interest	334,934	196	63,521	-	398,651
Miscellaneous	3,012,088	-	-	-	3,012,088
<b>TOTAL REVENUES</b>	<u>9,864,023</u>	<u>734,275</u>	<u>452,485</u>	<u>2,212,441</u>	<u>13,263,224</u>
<b>EXPENDITURES</b>					
General administration	5,451,664	-	-	438,803	5,890,467
Public safety	360,595	84,379	-	-	444,974
Public works	2,130,680	-	-	944,943	3,075,628
Culture and recreation	296,921	-	-	-	296,921
Environmental control	815,188	-	-	-	815,188
Health	-	-	-	-	-
Education	-	-	-	-	-
Welfare	373,635	518,766	-	-	892,401
Debt Service:					
Payment of principal	-	-	447,001	-	447,001
Interest	-	-	319,293	-	319,293
Capital outlays	-	-	-	2,865,469	2,865,469
<b>TOTAL EXPENDITURES</b>	<u>9,423,683</u>	<u>603,145</u>	<u>766,294</u>	<u>4,249,210</u>	<u>15,047,342</u>
Excess (deficiency) of revenues over expenditures	<u>435,340</u>	<u>131,130</u>	<u>(313,809)</u>	<u>(2,036,770)</u>	<u>(1,784,118)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers from other funds	66,107	-	155,829	-	221,936
Operating transfers to other funds	(155,829)	-	(66,107)	-	(221,936)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(89,722)</u>	<u>-</u>	<u>89,722</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financial (uses)	<u>345,618</u>	<u>131,130</u>	<u>(224,087)</u>	<u>(2,036,770)</u>	<u>(1,784,118)</u>
<b>Fund balance at beginning of year</b>					
As previously reported	4,271,891	3,171,551	1,250,357	3,350,752	12,044,551
Restatement	(1,554,016)	(2,878,955)	-	1,813,533	(2,619,433)
As restated	<u>2,717,875</u>	<u>292,596</u>	<u>1,250,357</u>	<u>5,164,285</u>	<u>9,425,118</u>
<b>Fund balance at end of year</b>	<u>\$3,063,493</u>	<u>\$423,726</u>	<u>\$1,026,270</u>	<u>\$3,127,511</u>	<u>\$7,641,000</u>

See accompanying notes to general purpose financial statements.

MUNICIPALITY OF BARRANQUITAS  
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
 - BUDGET AND ACTUAL - GENERAL AND DEBT SERVICE FUNDS  
 Year ended June 30, 2001

	General			Debt Service			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>									
Property taxes	\$1,000,486	\$1,153,655	153,169	\$286,232	\$388,964	\$102,732	\$1,286,718	\$1,542,619	\$255,901
Volume of business tax	579,657	595,653	15,996	-	-	-	579,657	595,653	15,996
Licenses and permits	72,730	94,812	22,082	-	-	-	72,730	94,812	22,082
Intergovernmental revenues	4,589,959	4,245,899	(344,060)	-	-	-	4,589,959	4,245,899	(344,060)
Rent of property	11,900	62,350	50,450	-	-	-	11,900	62,350	50,450
Interest	331,327	334,934	3,607	-	63,521	63,521	331,327	398,455	67,128
Miscellaneous	1,553,848	3,004,588	1,450,740	-	-	-	1,553,848	3,004,588	1,450,740
<b>TOTAL REVENUES</b>	<b>8,139,907</b>	<b>9,491,891</b>	<b>1,351,984</b>	<b>286,232</b>	<b>452,485</b>	<b>166,253</b>	<b>8,426,139</b>	<b>9,944,376</b>	<b>1,518,237</b>
<b>EXPENDITURES</b>									
General administration	3,768,712	4,160,720	(392,008)	-	-	-	3,768,712	4,160,720	(392,008)
Public safety	499,375	359,443	139,932	-	-	-	499,375	359,443	139,932
Public works	2,296,064	1,813,868	482,196	-	-	-	2,296,064	1,813,868	482,196
Culture and recreation	310,679	292,237	18,442	-	-	-	310,679	292,237	18,442
Environmental control	858,479	791,685	66,794	-	-	-	858,479	791,685	66,794
Welfare	406,598	365,911	40,687	-	-	-	406,598	365,911	40,687
Debt Service:									
Payment of principal	-	-	-	115,772	447,001	(331,229)	115,772	447,001	(331,229)
Payment of interest	-	-	-	170,460	319,293	(148,833)	170,460	319,293	(148,833)
<b>TOTAL EXPENDITURES</b>	<b>8,139,907</b>	<b>7,783,864</b>	<b>356,043</b>	<b>286,232</b>	<b>766,294</b>	<b>(480,062)</b>	<b>8,426,139</b>	<b>8,550,158</b>	<b>(124,019)</b>
Excess (deficiency) of revenues over expenditures	-	1,708,027	1,708,027	-	(313,809)	(313,809)	-	1,394,218	1,394,218
<b>OTHER FINANCING SOURCES (USES)</b>									
Operating transfer from other funds	-	66,107	66,107	-	155,829	155,829	-	221,936	221,936
Operating transfer to other funds	-	(155,829)	(155,829)	-	(66,107)	(66,107)	-	(221,936)	(221,936)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(89,722)</b>	<b>(89,722)</b>	<b>-</b>	<b>89,722</b>	<b>89,722</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess of revenues and other financing sources over expenditures and other financing (uses)	-	\$1,618,305	\$1,618,305	-	(\$224,087)	(\$224,087)	-	\$1,394,218	\$1,394,218

See accompanying notes to general purpose financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
June 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Barranquitas (the Municipality) was established in 1804. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a fourteen (14) member Municipal Assembly who are elected every four years through the Puerto Rico general elections.

The Municipality provides the following services: general and administrative services, public safety, public works, culture and recreation, sanitation, health, housing and urban development and welfare.

The Municipality's general purpose financial statements are presented in accordance with generally accepted accounting principles, as applicable to governmental entities. A summary of the Municipality's significant accounting policies follows:

A. REPORTING ENTITY

The Statement 14 of the Governmental Accounting Standards Board, Defining the Governmental Financial Reporting Entity, specifies the criteria to be used in defining the reporting entity for financial reporting purposes. The basic, but not the only, criteria for including a potential component unit in the reporting entity are the following:

- a. Legally separate organization
- b. Financial accountability
- c. Financial accountability, as a result of fiscal dependence

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

Based on these criteria, at June 30, 2001, there are no significant 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 general purpose financial statements have been prepared primarily 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.

The Municipality records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

**Governmental Fund Types**

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

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

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

#### Account Groups

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Long-Term Debt - is used to account for all long-term debt obligations of the Municipality.

General Fixed Assets - is used to account for all fixed assets of the Municipality (See Note 4).

#### C. BASIS OF ACCOUNTING

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligation which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality, therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

D. ENCUMBRANCES

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve that portion of the 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.

E. BUDGETARY DATA

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance to the Municipal Law.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

1. Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
2. The budget document is available for public inspection prior to its approval by the Municipal Assembly. Also, a copy of the document is sent to the Municipal Affairs Commissioner for further evaluation and recommendation.
3. Prior to July 1, the annual budget is legally enacted through the approval of the annual appropriation ordinance.
4. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

Amendments to the budget, require the approval of the Municipal Assembly. Transfers of appropriations within the budget, do not require the approval of the Municipal Assembly. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for encumbrances and property tax advances as described below.

The actual result of operations, presented in the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

The necessary adjustments to convert the result of operations of the General Fund from the accounting basis to the budgetary basis are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	\$9,864,023	\$9,428,683
Add:		
Current year encumbrances treated as current year expenditures for budgetary purposes		191,004
Deduct:		
Non-budgetary items	(372,132)	(281,733)
Payment of "Resultas"		(718,073)
Prior year encumbrances	_____	<u>(836,017)</u>
Budgetary basis	<u>\$9,491,891</u>	<u>\$7,783,864</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

**F. CASH**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Treasury Department of the Commonwealth of Puerto Rico. Cash balances from most funds are pooled and invested. All cash in banks at June 30, 2001, is

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name.

Cash balance at June 30, 2001, includes Certificates of Deposit amounting to \$4,000,000, comprised of the following funds:

General	\$2,400,000
Capital Projects	<u>1,600,000</u>
	<u>\$4,000,000</u>

#### G. INTERFUND TRANSACTIONS

The General Fund provides services at cost to the Special Revenue Funds. The amounts charged to these funds for the services provided are treated as a reduction of expenditures in the special revenue funds.

#### H. RESERVATIONS OF FUND BALANCE

Reservations of fund 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 committed amounts will become liabilities in future periods as the goods or services are performed or received.
- Debt Service - represent net assets available to finance future debt service payments.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

I. COMPENSATED ABSENCES

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation 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 reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employees' entitled vacation and sick leave are accrued in the General Long-Term Debt Account Group because it will not be funded with available expendable financial resources.

J. INSURANCE

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

K. TOTAL COLUMNS (MEMORANDUM ONLY)

The total columns are presented only to facilitate additional analysis. Consequently, amounts shown in Total Columns (Memorandum Only) do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

NOTE 2 - PROPERTY TAXES

During August 1991, Law 80 was enacted to create an agency, named Municipal Revenues Collection Center (known by its Spanish acronym, CRIM), which assumed the

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

NOTE 2 - PROPERTY TAXES - Continued

functions of the assessment, levy and collection of all real and personal property taxes from the Office of Municipal Affairs of the Treasury Department effective July 1, 1993. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The annual tax rate for fiscal year 2001 is 8.28% for real property and 6.28% for personal property of which 1.03% of both belongs to 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. 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) 1.25% represents the ad valorem tax restricted for debt services and accounted for in the Debt Service Fund. The Commonwealth also contributes an annual tax rate 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retail businesses with an annual volume of sales not exceeding \$150,000.

The CRIM advances to the Municipality an estimated amount of the basic property tax levied on non-exempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers.

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 amounts advanced 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 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2000-2001, but not the final settlement as the six-month period after fiscal year end, provided by law, has not yet expired. The preliminary settlement shows an excess of advances and charges from CRIM over collections of approximately \$542,000. This amount is shown in the accompanying Combined Balanced Sheet as an amount payable to a governmental entity by the General Fund. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

NOTE 3 - VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Act of Puerto Rico. All taxpayers are required to file their declaration by April 15 of each year.

The tax rates are as follows:

- Financial institutions	1.00%
- Other organizations	.30%

The tax is payable in two equal semi-annual installments on July 1 and January 1 following the levy date. A discount of 5% is allowed for the full payment on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

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

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements which are recorded in the Capital Projects Fund.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

NOTE 4 - GENERAL FIXED ASSETS

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

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

	(UNAUDITED)
Balance at July 1, 2000	\$11,139,902
Additions	2,066,102
Retirements	<u>          -</u>
Balance at June 30, 2001	<u>\$13,206,004</u>

NOTE 5 - GENERAL LONG-TERM DEBT

The general long-term debt transactions as of June 30, 2001, are as follows:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

	<u>Balance at July 1, 2000</u>	<u>Additions</u>	<u>Payments or Retirements</u>	<u>Balance at June 30, 2001</u>
General Obligations	\$2,424,000	\$ -	\$238,000	\$2,186,000
Special Obligations	751,005	-	209,000	542,005
Accrued vacations and sick leave	639,992	-	35,296	604,696
Claims and judgements	<u>17,000</u>	<u>23,000</u>	<u>-</u>	<u>40,000</u>
Total	<u>\$3,831,997</u>	<u>\$23,000</u>	<u>\$482,296</u>	<u>\$3,372,701</u>

General long-term debt at June 30, 2001, is as follows:

General obligations:

\$1,525,000 bonds due in annual installments ranging from \$30,000 to \$105,000, plus interest at 7.08% to 7.81% through July 1, 2019 \$1,460,000

\$190,000 bonds due in annual installments ranging from \$30,000 to \$45,000, plus interest at 7.08% to 7.81% through July 1, 2004 125,000

\$160,000 bonds due in annual installments ranging from \$6,000 to \$9,000, plus interest at 5% through January 1, 2007 51,000

\$205,000 bonds due in annual installments ranging from \$30,000 to \$50,000, plus interest at 6.3% through July 1, 2003 95,000

\$515,000 bonds due in annual installments ranging from \$5,000 to \$45,000, plus interest ranging from 6.1% to 8.2% through July 1, 2019 455,000

Total general obligations \$2,186,000

Special Obligations:

\$2,100,000 loan (series 1990) payable in semi annual installments of \$98,000, plus interest at 8.5% through July 1, 2006 \$ 490,000

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

NOTE 5 - GENERAL LONG-TERM DEBT - Continued

Special Loan (series 1987) payable to the Government Development Bank for Puerto Rico in quarterly installments of \$2,600, plus interest at 8% through July 1, 2006	<u>52,005</u>
Total special obligations	<u>542,005</u>
 Other:	
Accrued vacations and sick leave	604,696
Claims and judgements	<u>40,000</u>
Total general long-term debt	<u>\$3,372,701</u>

The annual requirements for the amortization of general long-term debt obligations outstanding as of June 30, 2001, is as follows:

<u>Year ended June 30,</u>	<u>Principal</u>
2002	\$ 251,401
2003	266,401
2004	226,401
2005	187,401
2006	192,401
Thereafter	<u>1,604,000</u>
Total	<u>\$2,728,005</u>

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

NOTE 6 - DEBT SERVICE FUND

Revenues for the Debt Service Fund mainly consists of the ad valorem property taxes which are recognized as revenue when collected and reported by the CRIM. These taxes are for the debt

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

service requirements of the bonds and notes obligations issued by the Municipality. Principal and interest on these obligations are paid by the Government Development Bank for Puerto Rico from funds obtained from the ad valorem taxes and received from the CRIM.

NOTE 7 - OPERATING TRANSFER FROM (TO) OTHER FUNDS

During the fiscal year ended June 30, 2001, the Debt Service transferred to the General Fund a total of \$66,107, representing interest earned from cash held on behalf of the Municipality by the Government Development Bank for Puerto Rico.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Municipality is a defendant in various lawsuits. For those cases in which it is probable or reasonable possible that a loss will be incurred and in which the amount of the potential judgement can be reasonably estimated, the Municipality's attorney estimates the liability to be \$40,000, and has been recorded in the general long-term debt account group.

The Municipality is a grantee in various federal financial assistance programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance costs as a result of these audits, become a liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Municipality's local funds. The Schedule of Findings and Questioned Costs for the year ended June 30, 2001, disclosed several instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any,

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

of expenditures which may be disallowed cannot be determined at this time, but the Municipality expects such amounts, if any, to be immaterial to the general purpose financial statements.

The Municipality leases office equipment under an operating lease expiring in 2002. Minimum future rental payments under non-cancelable operating lease having remaining terms in excess of one year as of June 30, 2001, are \$2,442, due during fiscal year 2002.

The Municipality is the lessor of a land lot located at Helechal Ward, under a month to month operating lease with monthly payments amounting to \$150.

NOTE 9 - PENSION PLAN

Substantially all employees participate in the Retirement System of the Commonwealth of Puerto Rico (the System), a multiple-employer public employee retirement system created by statute.

All employees which at the time of employment are 55 years old or less are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to retirement benefits, payable each month for life, computed based on a benefit rate set forth by the System. The System also provides death and disability benefits.

Covered employees are required to contribute, depending on selected alternatives, from 5.775% percent to 8.275% percent of their salary to the System. The Municipality is required to contribute 8 percent of the participant's salary. Total contributions (both employer and employees) to the System made by the Municipality during the year ended June 30, 2001, amounted to \$224,400.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2001

NOTE 10 - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2001, the Municipality corrected certain transactions affecting assets and liabilities that had been erroneously recorded, not recorded or recorded in the incorrect fund type, in the Municipality's general purpose financial statements for the ended June 30, 2000. Accordingly, the Municipality's fund balances for that year has been restated as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Fund balance at June 30, 2000, as previously reported	\$4,271,891	\$3,171,551	\$3,350,752
Prior period adjustments	<u>(1,554,016)</u>	<u>(2,878,955)</u>	<u>1,813,538</u>
Fund balance at June 30, 2000, as restated	<u>\$2,717,875</u>	<u>\$ 292,596</u>	<u>\$5,164,290</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2001

<u>FEDERAL GRANTOR\ PASS-THROUGH GRANTOR\ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY GRANTOR IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Low-Income Housing Program (Section 8 - Existing Housing)	14.156*	RQ-46-E060-001-003	\$ 52,321
Low-Income Housing Program (Section 8 - Voucher)	14.156*	RQ-46-V060-001-003	321,279
Pass-through State - Office of the Commissioner of Municipal Affairs- State Block Grant Program	14.219*	Program Year - 2000 Program Year - 1999 Program Year - 1998 Program Year - 1997 Program Year - 1996 Program Year - 1994 Program Year - 1993 Program Year - 1992 Program Year - 1988	156,237 615,216 201,873 330,707 2,106 220,785 3,793 357 <u>321</u> <u>1,531,395</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Public Safety and Community Policy Grants	16.710	98UMWX2448	124,300
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass-through State - Puerto Rico Commission for the Elderly	10.558	N/A	142,826
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>			
Pass-through State - Office of the Governor Representative for FEMA	83.516	1136 1247	2,121 <u>76,393</u> <u>78,514</u> <u>\$2,250,635</u>
Total Federal Financial Assistance			<u>\$2,250,635</u>

\*Major Program  
N/A - Not Available

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2001

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Barranquitas and is presented on the modified accrual basis of accounting. The Municipality of Barranquitas reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations.

NOTE 2 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenues and 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	\$ 603,145
Capital Projects Fund	<u>4,249,220</u>
	4,852,365
Less non-federal expenditures	<u>(2,601,730)</u>
Expenditures in the Schedule of Expenditures of Federal Awards	<u>\$2,250,635</u>

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

To the Honorable Mayor  
and the Municipal Assembly  
Municipality of Barranquitas  
Barranquitas, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Barranquitas (the Municipality) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 29, 2001, which was qualified for the effects of the adjustments, if any, as might have been determined to be necessary had we been able to audit general fixed assets account group at June 30, 2001 and the omission as of that date of the landfill closure and post closure costs. Except as previously noted, we conducted our audit in accordance with auditing standards generally accepted in the United States, 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 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*, except for Finding 01-01 included in the accompanying Schedule of Findings and Questioned Costs.

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 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 financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-01 thru 01-03.

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 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 reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness, except for Finding 01-01 included in the accompanying Schedule of Findings and Questioned Costs.

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

San Juan, Puerto Rico  
November 29, 2001

Stamp No. 1766017  
was affixed to the  
original report

*Coll Benítez CPA Firm - PSC*

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE  
APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM**

To the Honorable Mayor and  
the Municipal Assembly  
Municipality of Barranquitas  
Barranquitas, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Barranquitas (the 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, 2001. Municipality's major federal programs are identified in the Section I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality's management. Our responsibility is to express an opinion on the Municipality of Barranquitas compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 on the Municipality's compliance with those requirements.

In our opinion, except for the instances of noncompliance disclosed below, the Municipality of Barranquitas 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. The results of our auditing procedures disclosed several instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-04 thru 01-11.

## Internal Control Over Compliance

The management of the Municipality of Barranquitas is responsible for establishing and maintaining effective internal control over compliance with the 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 judgement, 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 01-04 thru 01-11.

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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses, except for Finding 01-04 included in the accompanying Schedule of Findings and Questioned Costs.

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

San Juan, Puerto Rico  
November 29, 2001

Stamp No. 1766018  
was affixed to the  
original report

*Coll Benítez CPA Firm - PSC*

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2001

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Qualified  
 Internal control over financial reporting:  
 Material weakness(es) identified?  yes  no  
 Reportable condition(s) identified  
 not considered to be material weakness?  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  
 not considered to be material weaknesses?  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  
 Circular A-133, Section .510(a)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.156	Low-Income Housing Program (Section 8 - Existing and Voucher)
14.219	Pass-through State-State Block Grant Program

Dollar threshold used to distinguish  
 Between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2001

**Section II - Financial Statement Findings**

The current year findings and questioned costs were discussed with the Municipality's management which generally concurred with our comments and recommendations. The Municipality of Barranquitas will respond to the following findings through the issuance of a separate letter addressed to the Cognizant Agency.

**01-1 FIXED ASSETS**

During our examination of the fixed assets, the following deficiencies were noted:

- a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the 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 are not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2001

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

RECOMMENDATION:

We recommend that the Municipality should:

- a) Establish adequate control procedures to assure that all applicable expenditures are properly recorded in the Municipality's property 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 (at least once a year).
- 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 assets by function and activities
  - Changes in general fixed assets by major assets class
- d) Designate 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 report should be included in the property records. This report should be sent to the property custodian to reconcile and update the property ledger.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2001

**01-2 PERSONNEL FILES AND PAYROLL  
RELATED PROCEDURES**

As part of our payroll test, we selected a sample of 60 personnel files. Following is a summary of the deficiencies noted:

- For 25 (42%) of the items selected, the personnel files did not include the employee evaluation form.
- In 2 (3%) of the items selected, the personnel files did not include the Good Behavior Certificate.
- In 39 (65%) of the items selected, the personnel files did not include the job description.
- In 18 (30%) of the items selected, the personnel files did not include the medical exam.
- In 1 (2%) of the items selected, the employee salary paid was below the approved wages according to the Classification and Retribution Plan.
- In 5 (8%) of the items selected, the personnel files did not include the Employee Status Changes Report.

**RECOMMENDATION:**

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

**01-3 MUNICIPAL LICENSE TAX**

During our municipal license tax tests, we selected a sample of 60 municipal license taxpayers files, amounting to approximately \$300,000 of current year's tax liabilities and the following exceptions were noted.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2001

- In 1 out of the 60 files selected for examination, the municipal license tax return for a payment of \$12,500 was not properly certified by an authorized municipal official.
- In 1 out of the 60 files selected for examination, we noted that the current year's tax return did not include the required audited financial statements when the volume of business exceeds \$1,000,000.

RECOMMENDATION:

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2001

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

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Costs</u>
All Programs	<p><b>01-4 INADEQUATE PROPERTY RECORDS</b></p> <p>The Municipality of Barranquitas is not maintaining adequate property records that provide all the information required by federal regulations. Property records maintained by the Federal Programs only include limited information such as property number, item description and quantity.</p> <p>The Common Rule, 45 CFR Part 92, Subpart C, requires that property records shall include, the source of property, acquisition date, percentage of federal participation in the cost of the property, location, use and condition of the property and any disposition data, including the date of disposal and sale price.</p> <p>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.</p> <p>(This condition was also described in Finding 01-1 of the Section II of the Schedule of Findings and Questioned Costs, page 31)</p>	NONE
Section 8 Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p><b>01-5 FEDERAL FINANCIAL REPORTS</b></p> <p>The accounting records maintained by the Federal Programs Office are not reconciled with the accounting records maintained by the Municipality's central accounting department records. The Municipality has not established procedures for the</p>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
Year ended June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
	<p>reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department records. As a result, this condition may lead to inaccurate reporting of programs supported activities.</p> <p>OMB Circular A-102, 20 (b) (2) requires recipient of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the Federal Program. The Municipality should prepare federal financial reports based on the Program's underlying accounting records.</p>	NONE
Section 8 Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p><b>01-6 INADEQUATE DOCUMENTATION OF PARTICIPANT FILES</b></p> <p>Statement of Condition:</p> <p>In our eligibility test of participants of the Section 8 - Voucher Program, the application forms for three (3) participants could not be located, out of a sample of 10 participants.</p> <p>Criteria:</p> <p>According to the eligibility criteria for selecting participants, the beneficiaries must submit, among other things, the application to the Program. The failure to have all forms and documents in the participant file may result in failure to detect errors or irregularities, which may expose the Municipality to cost disallowances.</p>	

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
Year ended June 30, 2001

<u>Program</u>	<u>Findings/Noncompliance and Recommendations</u>	<u>Questioned Cost</u>
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Recommendation:

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

NONE

Section 8-Voucher  
CFDA No 14.156  
RQ-46-V060-001-003

**01-7 YEAR END SETTLEMENT STATEMENT**

Statement of Condition:

During our review of the Year-End Settlement Statement, Form HUD-52681, we noted that the information reported did not agree with the program's accounting records:

<u>Account</u>	<u>Per Report</u>	<u>Per Program Records</u>	<u>Difference</u>	
Other Income	\$613	\$568.50	\$44.50	NONE

Criteria:

OMB Circular A-102, 20 (b)(2), requires recipients of federal funds to have a financial management system that provides for the maintenance of accurate, current and complete disclosure of the financial results of the program.

Recommendation:

The Municipality should implement procedures to review each report sent to the Federal Agency, and ascertain that the financial information is in accordance with the program accounting records.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year ended June 30, 2001

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
Section 8-Voucher CFDA No. 14.156 RQ-46-V060-001-003	<p><b>01-8 CASH MANAGEMENT SYSTEM</b></p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$42,290, during the fiscal year. There were months which reported balances as high as \$64,829 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from 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 drawdown of federal funds as closely as possible to the actual disbursements.</p>	NONE
Section 8-Existing CFDA No. 14.156 RQ-46-E060-001-003	<p><b>01-9 CASH MANAGEMENT SYSTEM</b></p> <p>Statement of Condition:</p> <p>The Municipality has not established effective cash management procedures. The program had an average cash balance of approximately \$68,104, during the fiscal year. There were months which reported balances as high as \$78,294 at the end of month.</p>	NONE

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year ended June 30, 2001

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
	<p>Criteria:</p> <p>Federal regulation requires that grantees shall conform to the standards applicable to advances from 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 drawdown of Federal funds as closely as possible to the actual disbursements.</p>	
SBGP CFDA No. 14.219 Program year 1999	<p><b>01-10 CASH MANAGEMENT SYSTEM</b></p> <p>Statement of Condition</p> <p>The Municipality has not established effective cash management procedures. The Program had an average cash balance of approximately \$12,560, during the fiscal year. There were months which reported balances as high as \$33,205 at the end of the month.</p> <p>Criteria:</p> <p>Federal Regulation requires that grantees shall conform to the standards applicable to advances from 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 drawdown of Federal funds as closely as possible to the actual disbursements</p>	NONE

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BARRANQUITAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year ended June 30, 2001

<u>Program</u>	<u>Findings/noncompliance and Recommendations</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.219 Program years 2000 1999 1998	<p><b>01-11 REQUISITION OF FUNDS</b></p> <p>Statement of Condition:</p> <p>In our review of the Requisition of Funds sent to the Office of the Commissioner of Municipal Affairs (OCAM), we noted certain mathematical errors and discrepancies between the report and the supporting documentation.</p> <p>Criteria:</p> <p>OMB Circular A-102, 20(b)(2) requires recipients of federal funds to have a financial management system that provides for maintenance of accurate, current and complete records of the financial results of the federal program.</p> <p>Recommendation:</p> <p>The Municipality should perform periodic reconciliations between the accounting records and reports sent to grantors, in order to provide for an effective detect control regarding financial reporting and petition of funds.</p>	NONE
Total Questioned Costs		<u>\$ -</u>

# Gobierno Municipal de Barranquitas

Hon. Francisco López  
Alcalde

November 29, 2001

Coll Benítez, CPA - Firm, PSC  
Certified Public Accountants and  
Business Consultants  
Midtown Building, Suite 614  
420 Ponce de León Avenue  
Hato Rey, Puerto Rico 00918

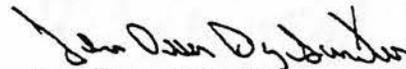
Dear Auditors:

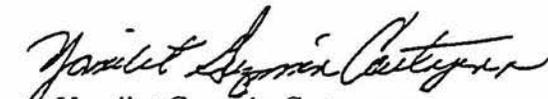
We have received the Schedule of Findings and Questioned Costs, included in the Single Audit Report of the Municipality of Barranquitas for the year ended June 30, 2001.

Although we have already discussed the above mentioned findings, (Financial Statements and Federal Awards Findings) we are in the process of gathering all the relevant information and preparing the related responses. In order to comply with OMB Circular A-133 after completing this task we are going to issue our corrective actions taken on all prior audit findings and our responses to the current findings directly to the grantors and required government agencies.

Cordially,

  
Francisco López López  
Mayor

  
José Oscar Díaz Santos  
Finance Director

  
Yamilet Guzmán Cartagena  
Federal Programs Acting Director

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS  
FISCAL YEAR 1999-2000

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 2000. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-2001).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-2001.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-01	Fixed Assets	NR
00-02	Cash and bank accounts	FR
00-03	Personnel files and payroll related procedures	NR
00-04	Municipal license tax	PR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS  
FISCAL YEAR 1999-2000

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2000. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-01).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-01.

<u>Finding Number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
00-5	Cash and bank accounts	FR
00-6	Inadequate property records	NR
00-7	Federal financial reports	NR
00-8	Inadequate documentation of participant files	NR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS  
FISCAL YEAR 1998-1999

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance and on Internal Control Based on the Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards for the Fiscal Year ended June 30, 1999. Under the heading Corrective Action Taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-01).
- NR - Not resolved yet. Finding repeated in fiscal year 2000-01.

<u>Finding number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
99-1	Fixed Assets	NR
99-2	Cash Disbursements	FR
99-3	Cash and bank accounts	FR
99-4	Personnel files and payroll related procedures	NR
99-5	Municipal license tax	PR

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS  
FISCAL YEAR 1998-1999

The following schedule contains the finding number and title of each of the findings included in the Report on Compliance with the Requirements Applicable to Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 1999. Under the heading Corrective Action taken there will be the following:

- FR - Fully resolved (indicating the corrective action plan was fully implemented).
- PR - Partially resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2000-01).
- NR - Situation not resolved yet. Finding repeated in fiscal year 2000-01.

<u>Finding number</u>	<u>Title</u>	<u>Corrective Action Taken</u>
99-6	Cash and bank accounts	FR
99-7	Inadequate property records	NR
99-8	Federal financial reports	NR
99-9	Cash management system	NR
99-10	Inadequate documentation of participant files	NR
99-11	Cash management system	NR
99-12	Inadequate documentation of participant files	NR

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