

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

**MUNICIPIO DE LOIZA**  
**AUDITORIA 2001-02**  
**30 DE JUNIO DE 2002**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2002**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Municipality of Loíza, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Loíza's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of Brisas de Loíza, which statements reflect total assets of \$435,720 as of June 30, 2002, and total revenues of \$399,641 for the year then ended. Other auditors whose report has been furnished to us audited those statements, and our opinion, insofar as it relates to the amount included in the Special Revenue Fund, General Fixed Assets and General Long-Term Debt Accounts Group for the Municipality, is based solely on the report of the other auditors.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 6, the Municipality of Loíza has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance of such group amounting to \$17,116,657.

In our opinion based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Loíza as of June 30, 2002, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

As discussed in Note 16 to the general purpose financial statements, the beginning fund balance as of July 1, 2001 of the special revenue fund was restated for the effect of the inclusion of the Brisas de Loíza as a component unit.

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. 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 8, 2002

*Ortiz Rodriguez, Rivera & Co*

The stamp 1812094 was affixed  
to the original of this report



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOIZA  
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

<u>Assets</u>	<u>Governmental Fund Types</u>				<u>Account Groups</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Fixed Asset</u>	<u>General Long Term Debt</u>	<u>Memorandum</u>
Cash in bank; including certificates of deposits of \$21,100 (Note 2)	\$ 483,620	\$ 661,309	\$ -	\$ 803,688	\$ -	\$ -	\$ 1,948,617
Cash with fiscal agent (Note 2)	109,180		1,473,334	2,064,551			3,647,065
Due from other agencies (Note 7)	659,204	133,803					793,007
Due from other funds (Note 8)	122,701			239,038			361,739
Other assets		42,972					42,972
Restricted deposits		268,205					268,205
Property and equipment (Note 6)					17,116,657		17,116,657
Amount available in debt service fund (Note 2)						1,473,334	1,473,334
Amount to be provided for retirement of general long-term debt (Note 10)						3,469,081	3,469,081
Amount to be provided for payment of Section 221(d)(3) Direct Loan (Note 10)						2,130,912	2,130,912
Amount to be provided for payment of Puerto Rico Health Insurance Administration						262,443	262,443
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						702,924	702,924
<b>Total assets</b>	<b>\$ 1,374,705</b>	<b>\$ 1,106,289</b>	<b>\$ 1,473,334</b>	<b>\$ 3,107,277</b>	<b>\$ 17,116,657</b>	<b>\$ 8,038,694</b>	<b>\$ 32,216,956</b>

The accompanying notes are an integral part of these financial statements.

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**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LOIZA**  
**COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)**  
**JUNE 30, 2002**

<b>Liabilities and Fund Equity</b>	<b>Governmental Fund Types</b>				<b>Account Groups</b>		<b>Total</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>General Fixed Asset</b>	<b>General Long Term Debt</b>	<b>Memorandum</b>
<b>Liabilities</b>							
Account payable and accrued liabilities	\$ 508,272	\$ 166,598	\$ -	\$ 269,160	\$ -	\$ -	\$ 944,030
Deposits payables	276,485						276,485
Due to other funds (Note 8)	50,350	220,688		90,701			361,739
Due to other agencies (Note 9)	535,571						535,571
Deferred revenues:							
Municipal license tax (Note 4)	236,001						236,001
Federal government		244,933					244,933
Accrued vacations and sick leave (Note 1)						702,924	702,924
General long-term debts (Note 10)						4,942,415	4,942,415
Section 221(d)(3) Direct Loan (Note 10)						2,130,912	2,130,912
Due to Puerto Rico Health Insurance Administration (Note 10)						262,443	262,443
<b>Total liabilities</b>	<b>1,606,679</b>	<b>632,219</b>	<b>-</b>	<b>359,861</b>	<b>-</b>	<b>8,038,694</b>	<b>10,637,453</b>
<b>Commitments and Contingencies (Notes 12, 13 and 14)</b>							
<b>Fund Equity (Deficit)</b>							
Investment in general fixed assets					17,116,657		17,116,657
Fund balance:							
Reserved for encumbrances	236,590						236,590
Reserved for debt service			1,473,334				1,473,334
Reserved for specific project		277,070					277,070
Reserved for capital additions				2,747,416			2,747,416
Undesignated equity (deficit)	(468,564)	197,000					(271,564)
<b>Total fund equity (deficit)</b>	<b>(231,974)</b>	<b>474,070</b>	<b>1,473,334</b>	<b>2,747,416</b>	<b>17,116,657</b>	<b>-</b>	<b>21,579,503</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,374,705</b>	<b>\$ 1,106,289</b>	<b>\$ 1,473,334</b>	<b>\$ 3,107,277</b>	<b>\$ 17,116,657</b>	<b>\$ 8,038,694</b>	<b>\$ 32,216,956</b>

The accompanying notes are an integral part of these financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOIZA  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
<b>REVENUES</b>					
Property taxes (Note 3)	\$ 425,854	\$ -	\$ 404,397	\$ -	\$ 830,251
Municipal license taxes (Note 4)	402,449				402,449
Licenses and permits	775,111				775,111
Charges for service and rents	86,055				86,055
Inter-governmental revenues (Note 5):					
Federal grants and contributions		2,124,131			2,124,131
State contributions	5,464,024			256,638	5,720,662
Interest, fines, and penalties	162,778		27,040		189,818
Rental revenue from specific project (Note 1)		351,748			351,748
Other revenues	303,136	47,892			351,028
Total revenues	<u>7,619,407</u>	<u>2,523,771</u>	<u>431,437</u>	<u>256,638</u>	<u>10,831,253</u>
<b>EXPENDITURES</b>					
Municipal council	201,617				201,617
Offices:					
Mayor	1,994,584				1,994,584
Departments:					
Civil Defense	629,643				629,643
Finance	2,138,555				2,138,555
Health	10,147				10,147
Public Works, Transportation and Sanitation	2,027,265	1,602,406			3,629,671
Recreation	300,504				300,504
Personnel	186,596				186,596
Capital outlays		632,725		803,213	1,435,938
Collection of property taxes applied to advances (Note 15)	500,297				500,297
General Government	545,820				545,820
Welfare		739,145			739,145

The accompanying notes are an integral part of these financial statements.

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOIZA  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt service:					
Principal retirement (Note 10)	\$ -	\$ 581,899	\$ 217,768	\$ -	\$ 799,667
Interest and other (Note 10)		53,899	179,181		233,080
Total expenditures	<u>8,535,028</u>	<u>3,610,074</u>	<u>396,949</u>	<u>803,213</u>	<u>13,345,264</u>
Excess (deficiency) of revenues over expenditures	<u>(915,621)</u>	<u>(1,086,303)</u>	<u>34,488</u>	<u>(546,575)</u>	<u>(2,514,011)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from long-term debt	655,000				655,000
Advances of property taxes (Note 15)	500,297				500,297
Operating transfer-in	110,087		159,424		269,511
Operating transfer-out	(159,424)		(110,087)		(269,511)
Total other financing sources	<u>1,105,960</u>	<u>-</u>	<u>49,337</u>	<u>-</u>	<u>1,155,297</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>190,339</u>	<u>(1,086,303)</u>	<u>83,825</u>	<u>(546,575)</u>	<u>(1,358,714)</u>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 16)</b>	<u>(422,313)</u>	<u>1,560,373</u>	<u>1,389,509</u>	<u>3,293,991</u>	<u>5,821,560</u>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<u>\$ (231,974)</u>	<u>\$ 474,070</u>	<u>\$ 1,473,334</u>	<u>\$ 2,747,416</u>	<u>\$ 4,462,846</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOIZA  
COMBINED STATEMENT OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES (Notes 1 and 15)</b>						
Property taxes	\$ 425,854	425,854	\$ -	\$ 236,981	\$ 404,397	\$ 167,416
Municipal license taxes	396,354	402,449	6,095			
Licenses and permits	722,400	775,111	52,711			
Charges for service and rents	85,100	86,055	955			
Intergovernmental revenues:						
State contributions	5,469,596	5,464,024	(5,572)			
Interest, fines, and penalties	164,147	195,761	31,614		27,040	27,040
Other revenues	283,670	380,240	96,570			
Total revenues	<u>7,547,121</u>	<u>7,729,494</u>	<u>182,373</u>	<u>236,981</u>	<u>431,437</u>	<u>194,456</u>
<b>EXPENDITURES (Notes 1 and 15)</b>						
Municipal council	218,439	201,617	16,822			
Offices:						
Mayor	1,821,768	1,994,584	(172,816)			
Departments:						
Civil Defense	651,725	629,643	22,082			
Finance	2,481,701	2,089,838	391,863			
Health	10,739	10,147	592			
Public Works, Transportation and Sanitation	1,860,649	2,027,265	(166,616)			
Recreation	312,782	300,504	12,278			
Personnel	189,318	186,596	2,722			
Debt service; principal and interest payment				<u>236,981</u>	<u>347,612</u>	<u>(110,631)</u>
Total expenditures	<u>7,547,121</u>	<u>7,440,194</u>	<u>106,927</u>	<u>236,981</u>	<u>347,612</u>	<u>(110,631)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 289,300</u>	<u>\$ 289,300</u>	<u>\$ -</u>	<u>\$ 83,825</u>	<u>\$ 83,825</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The Municipality of Loíza, Puerto Rico (Municipality) was founded in 1719. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**b. Summary of Significant Accounting Policies**

The accounting policies of the Municipality are in accordance with the accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the most significant policies:

1) Fund Accounting

The accounts of the Municipality are organized 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 with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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 Municipality has established the following fund types and account groups:

a) Governmental Funds

i. General Fund

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

ii. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. Debt Service Fund

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.

iv. Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

b) Account Groups

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

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-Term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

c) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LOÍZA**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year ends are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Funds purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

Brisas de Loíza is a 70-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 221(d)(3) of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 221(d)(3) Direct Loan (see Note 10).

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office:  
García de la Noceda Street  
Loíza, Puerto Rico 00772

10) Claims and Judgements

The estimated amount of the liability for claims and judgements, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The general long term-debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or

**COMMONWEALTH OF PUERTO RICO  
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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

expected due date, which will require future available financial resources for its payment.

11) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

12) Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2002-03
37	Reporting Model Omnibus	2002-03
38	Note Disclosures	2002-03
39	Determining Whether Certain Organizations are Components Units	2002-04

The impact of these statements on the Municipality's financial statements has not yet been determined.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**2. CASH AND CASH WITH FISCAL AGENT**

**a. Cash in Bank and Concentration Risk**

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance. Short-term investments consist of certificates of deposit.

The Municipality maintains its cash accounts in banks located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Banco Popular de Puerto Rico	<u>\$2,183,722</u>	<u>\$100,000</u>	<u>\$2,083,722</u>

**b. Cash with Fiscal Agent**

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2002, the balance of cash retained by the Government Development Bank amounted to \$1,473,334.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2002, the balance of cash retained by the Government Development Bank available for the acquisition of real property and federal program amounted to \$2,064,551.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**3. PROPERTY TAXES**

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. 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 rates are 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>8.08%</u>	<u>6.08%</u>

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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 Department of the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of less than \$3,500, for which no payment

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LOÍZA**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the Municipal Revenues Collection Center.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

**4. MUNICIPAL LICENSE TAX**

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Loíza, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. The rates of municipal license in the Municipality of Loíza are as follows:

Savings and loans associations	=	1.00%
Financing institution	=	1.50%
Other organizations	=	.50%

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LOÍZA**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$236,001, corresponding to the next fiscal year municipal license.

**5. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Water and Sewer Authority, the Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

**6. GENERAL FIXED ASSETS**

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in the general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its fixed assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department is in the process of update these records in order to maintain a proper system.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property	\$11,861,587
Vehicles, equipment, and furniture	<u>5,255,070</u>
Total general fixed assets	<u>\$17,116,657</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**7. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Puerto Rico Electric Power Authority	\$557,481	\$ -	\$557,481
CRIM	80,423		80,423
Puerto Rico Water and Sewer Authority	21,300		21,300
EDA		27,625	27,625
OCAM		6,113	6,113
Department of Education	_____	<u>100,065</u>	<u>100,065</u>
<b>Total</b>	<u>\$659,204</u>	<u>\$133,803</u>	<u>\$793,007</u>

**8. DUE FROM (TO) OTHER FUNDS**

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due from) and inter-fund payable (due to) balances.

The due from and due to other fund balances as of June 30, 2002, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund	\$122,701	\$ 50,350
Special Revenue Funds	-	220,688
Capital Project Funds	<u>239,038</u>	<u>90,701</u>
	<u>\$361,739</u>	<u>\$361,739</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**9. DUE TO OTHER AGENCIES**

The composition of this account is as follows:

	<u>General Fund</u>
Puerto Rico Electric Power Authority	\$450,001
General Services Administration	16,981
Retirement System	13,344
Treasury Department	33,387
Puerto Rico Telephone Company	<u>21,858</u>
	<u>\$535,571</u>

**10. GENERAL LONG-TERM DEBT**

The general long-term debts' transactions as of June 30, 2002 are as follows:

Balance July 1, 2001, as restated	\$6,636,095
Additions	655,000
Payments	( <u>217,768</u> )
Balance June 30, 2002	<u>\$7,073,327</u>

The general long-term debt group beginning balance at July 1, 2001 was restated to give effect to the inclusion of Brisas de Loíza.

General long-term debt obligations at June 30, 2002 are as follows:

**Bonds**

\$451,000 series of 1993, payable in annual installments of \$10,000 to \$32,000 until January 1, 2016, interest at 5%.	\$ 334,000
\$80,000 series of 1988, payable in annual installments of \$5,000 to \$10,000 until July 1, 2003, interest ranging from 3.26% to 9.5%.	15,000
\$100,000 series of 1996, payable in annual installments of \$3,000 to \$8,000 until January 1, 2015, interest at 4.5%.	77,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

\$385,000 series of 1999, payable in annual installments of \$40,000 to \$70,000 until July 1, 2007, interest ranging from 7.81% to 8%.	\$ 345,000
\$1,685,000 series of 1999, payable in annual installments of \$30,000 to \$150,000 until July 1, 2023, interest ranging from 5.88% to 8%.	1,655,000
\$655,000 series of 2002, payable in annual installments of \$5,000 to \$20,000 until July 1, 2026, interest ranging from 5% to 8%.	<u>655,000</u> <u>3,081,000</u>

**Notes Payable**

\$870,000 general obligation of 1987, payable in annual installments of \$15,000 to \$90,000 until July 1, 2006, interest at 8.5%.	364,167
\$400,000 special obligation of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 6.75%.	<u>340,000</u> <u>704,167</u>

**Other**

Due to the Department of Labor for the concept of unemployment. The payment includes a first installment of \$30,293 and 36 monthly installments of \$3,989.	30,868
Due to the Department of Treasury for the concept of property tax advances, payable in monthly installments of \$2,639 until 2009.	221,683
Property tax advance 2000-01	<u>904,697</u> <u>1,157,248</u>
Total general long-term debts	<u>\$4,942,415</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Mortgage Payable**

Mortgage payable to FmHA in monthly installments of \$4,802, including interest at 8% per annum, through 2030, guaranteed by land and building.	\$1,520,506
Mortgage payable to FmHA in monthly installments of \$4,802, including interest at 8% per annum, through 2030, guaranteed by land and building.	<u>610,406</u>
Total mortgage payable	<u>2,130,912</u>
Total	<u>\$7,073,327</u>

The annual requirements for the amortization of general long-term debt at June 30, 2002, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 490,189
2004	512,189
2005	509,422
2006	575,144
2007	446,977
2008-2012	1,237,183
2013-2017	1,011,845
2018-2022	1,626,845
2023-2027	366,845
2028-2032	<u>296,688</u>
	<u>\$7,073,327</u>

**Due to Puerto Rico Health Insurance Administration**

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

As described in Note 3, the Municipality levies an additional special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Municipal Revenues Collection Center as agent for the Municipality.

**11. RETIREMENT PLAN**

**a. Plan Description**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the ACT 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, and 2 percent of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

**b. Contribution Requirements**

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The required contribution and contribution made for the year ended June 30, 2002 was \$180,913 and the actual. The Municipality's payroll for employees covered by ERS was \$1,950,544. The Municipality total payroll for all employees was \$3,108,156.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**12. CONTINGENCIES**

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**13. COMMITMENTS**

The Municipality of Loíza had several outstanding or planned construction projects as of June 30, 2002. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$433,296.

**14. LEASES**

Leasing arrangements with the Municipality as lessor are as follows:

- a. The Municipality leases spaces in the Transportation Center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2002 was approximately \$20,255.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

**15. BUDGETARY COMPARISONS**

As described in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with accounting principles generally accepted in the United States of America (GAAP).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The principal difference between budgetary basis and GAAP are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by GAAP.
- c. Under GAAP the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the GAAP to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$7,619,407	\$8,535,028
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	236,590
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	( 444,731)
Plus advances of property taxes recorded as revenue on the budgetary basis	500,297	-
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	( 500,297)	( 500,297)
Plus transfer in and transfer out	110,087	159,424
Less other funds not recorded on the budgetary basis	<u>-</u>	( <u>545,820</u> )
Budgetary basis	<u>\$7,729,494</u>	<u>\$7,440,194</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

16. The Municipality has restated the beginning fund balance of the special revenue fund to reflect the effect of the inclusion of the financial statements of Brisas de Loíza as a component unit.

Fund balance at beginning of year as previously reported	\$ 238,181
Effect of the inclusion of Brisas de Loíza	<u>1,322,192</u>
Fund balance at beginning of year as restated	<u>\$1,560,373</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>		
Direct programs:		
Section 8-Rental Certificate Program	14.857	\$ 34,251
Pass-through State - Commissioner Office of Municipal Affairs		
Community Development Block Grant-State Program		
SBGP	14.228	<u>1,602,406</u>
Subtotal U.S. Department of HUD		<u>1,636,657</u>
<b>U.S. Department of Agriculture</b>		
Pass-through Education Department Child and Adult Care Food Program	10.558	298,240
Nutrition Assistance for Puerto Rico	10.566	11,753
Rural Housing Preservation Grant	10.433	<u>1,715</u>
Subtotal U.S. Department of Agriculture		<u>311,708</u>
<b>Community Planning and Development</b>		
Housing Opportunities for Persons with AIDS	14.241	<u>19,403</u>
Subtotal Community Planning and Development		<u>19,403</u>
<b>TOTAL</b>		<b><u>\$1,967,768</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of the Municipality of Loíza and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in, or used in the presentation of the basic financial statements.

	<u><b>Expenditures</b></u>
Total federal expenditures	\$1,967,768
Total non federal expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>556,003</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u><b>\$2,523,771</b></u>



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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Members:  
American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

To the Honorable Mayor and  
Municipal Council  
Municipality of Loíza  
Loíza, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Loíza as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 2002, which was qualified because insufficient audit evidence exists to support Municipality of Loíza's disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Loíza's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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* and which are in the schedule of reportable conditions and recommendations as items 1, 2 and 3. We also, noted certain immaterial instances of noncompliance that have reported to management of the Municipality of Loíza in a separate letter dated November 8, 2002.

## Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Loíza's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Loíza's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items 1, 2, and 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Loíza, in a separate letter dated November 8, 2002.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

San Juan, Puerto Rico  
November 8, 2002

*Ortiz, Rodriguez, Rivera & Co*

The stamp 1812095 was affixed  
to the original of this report



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**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ACCOUNTING SYSTEM**

We noted that the Municipality of Loíza is not keeping an accounting system as required by accounting principles generally accepted in the United States of America. At present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchase orders and contracts are not adequate because does not provide for a segregation between the accounts payable and the encumbrances. In order to prepare the financial statements, we recorded several adjusting entries to convert them to a modified accrual basis of accounting.

**Recommendation**

We recommend the Municipality of Loíza, in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide that the Municipality's operations be accounted for through several separate funds and account groups, recording in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statements by fund category. The Municipality should use the general purpose financial statements based on the following funds and accounts groups:

**a. Governmental Funds Type**

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

1) General

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

2) Special revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specified purposes.

3) Debt service

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

4) Capital project

Is used to account for financial resources to be used for the construction or acquisition or major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are recorded as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances, therefore the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

**b. Proprietary Fund**

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation accounts are also used in this type of fund.

**c. Trust and Agency Fund**

Is used to account for assets held by the Municipality, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**d. Account Groups**

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long-term Debt.

1) General Fixed Assets accounts group

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

2) General Long-term Debt accounts group

Is used to provide accounting control over General Long-term Debt; except those accounted in the Proprietary and Trust Funds.

In addition, the Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired. This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrances should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and accrued expenses should be recorded when the debt is incurred and the amount is determinable.

**2. FIXED ASSETS**

The Municipality does not have an effective system to account for fixed assets. There are no controls in place to assure that all property expenditures which should be capitalized or property dispositions are recorded in the fixed assets subsidiary ledger. Procedures are not in place to require that real property acquired with federal and local funds be recorded in the property subsidiary ledger or that any property sales and dispositions be accounted for in the fixed assets subsidiary ledger.

This condition occurs because there are no established procedures to prepare the adjustments necessary to record these transactions in the fixed assets subsidiary ledger.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible to safeguard and be accountable for its fixed assets (both real and personal property).

Chapter VII, Sections 3, 4, 14, 15 and 21 of the Basic Standards, establishes the following guidelines regarding property management:

**Section 3** establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

**Section 4** establishes that the Municipality Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

**Section 14(1)** establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

**Section 15(1)** establishes that the Property Department Director is responsible for accurately maintaining the central property records.

**Section 21(c)** establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

The continued failure to have accurate and complete property records has resulted in a qualification with respect to the general fixed assets account group. Under the requirements of Statement 34 this can result in a disclaimer of opinion of the entity wide statements. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets. The value of federally funded property that may be lost would need to be repaid to the federal government with local funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Recommendation**

The Property Division must require each division that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

The Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal funds offices, such as Head Start, and Housing and Urban Development (HUD).

**3. LONG-TERM DEBTS**

The Municipality does not keep a subsidiary of general long-term debts, and the balances of said debts are not being recorded in the general ledger.

**Recommendation**

We recommend the establishment of a subsidiary of General Long-Term Debts. The subsidiary should include the following information:

- a. Creditors name
- b. Type of debt (note, bond and others)
- c. Original amount
- d. Terms of the debt (interest, due date, monthly payments and others)
- e. Balance due

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

The subsidiary should provide columns to record each payment, date of the payment and balance due after the payment. The subsidiary should be balanced each month and reconciled with the control account in the general ledger.



**ORTIZ, RODRIGUEZ, RIVERA & CO.**  
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CPA Orlando Luis Ortiz Cabrera  
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American Institute of Certified  
Public Accountants (AICPA)  
Puerto Rico Board of Certified  
Public Accountants  
Management Consulting  
Services Division

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

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

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Loíza'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 Municipality of Loíza's compliance with those requirements.

In our opinion, Municipality of Loíza complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as conditions numbers 02-1 to 02-4.

### Internal Control over Compliance

The management of Municipality of Loíza 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 Loíza'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 do 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.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the 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.

San Juan, Puerto Rico  
November 8, 2002

The stamp 1812096 was affixed  
to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Loíza.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Loíza were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Loíza express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Loíza are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
  - SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Loíza was determined to be a high-risk auditee.

**2. FINDINGS - FINANCIAL STATEMENTS AUDIT**

See Schedule of Reportable Conditions and Recommendation on pages 32 to 37.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM  
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<b>SBGP CFDA No. 14.228</b>	<p><b>Condition 02-1</b></p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.</p>	
<p><b>SBGP CFDA No. 14.228</b></p>	<p style="text-align: center;"><b>Condition 02-2</b></p> <p>The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we note that the Municipality did not send on time the quarterly reports for the periods ended September 30, 2001 and December 31, 2001.</p> <p><u>Criteria</u></p> <p>The Municipality is not in compliance with 43 CFR 13.41-(b)(3) which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management shall prepare accurate and timely federal financial reports.</p>	<p style="text-align: center;"><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Cause</u></p> <p>The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.</p> <p style="text-align: center;"><u>Effect</u></p> <p>The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.</p> <p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially with new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.</p>	
<p><b>SBGP CFDA No. 14.228</b></p>	<p style="text-align: center;"><b><u>Condition 02-3</u></b></p> <p>A project contract from the project to apply asphalt to the roads of the Municipality of Loíza with an original contract amount of \$655,470.38 did not have the following clauses:</p> <p>a. Termination for cause and for convenience by the grantee or subgrantee including the</p>	<p style="text-align: center;">\$ <u>-0-</u></p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000).</p> <p>b. Compliance with Executive Order 11246 of September 24, 1965 entitled "Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967 and as supplemented in Department of Labor regulations (41 CFR Part 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees).</p> <p>c. Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3). (All contracts and subgrants for construction or repair).</p> <p>d. Compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) as supplemented by Department of Labor regulations (29 CFR Part 5). (Construction contracts in excess of \$2,000 awarded by grantees and subgrantees when required by Federal grant program legislation).</p> <p>e. Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations v (29 CFR Part 5). (Construction contracts awarded by grantees and subgrantees in excess of</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>\$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers).</p> <p>f. Notice of awarding agency requirements and regulations pertaining to reporting.</p> <p>g. Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.</p> <p>h. Awarding agency requirements and regulations pertaining to copyrights and rights in data.</p> <p>i. Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions.</p> <p>j. Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.</p> <p>k. Compliance with all applicable standards, orders, or requirements issued under section</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>306 of the Clear Air Act (42 U.S.C. 1857 (h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR Part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000).</p> <p>I. Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation (Pub. L. 94-163, 89 Stat. 871).</p> <p><u>Criteria</u></p> <p>OMB Common Rule, Subpart A, Section 2 of the contract provisions requires that a grantees' and subgrantees' contracts must contain the clauses mentioned above.</p> <p><u>Cause</u></p> <p>The program does not prepare the contracts with the clauses established by the OMB Common Rule.</p> <p><u>Effect</u></p> <p>The program does not comply with the procurement, suspension, and debarment requirements.</p>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>In accordance with Federal Regulations, the program should improve their procedures and assure that all the contracts will contain the provisions established by the OMB Common Rule.</p>	
<p><b>HOPWA CFDA No. 14.241</b></p>	<p style="text-align: center;"><b>Condition 02-4</b></p> <p>During the audit, we examined cash movement of the program. We observed the receipts were deposited on the general account of the municipality.</p> <p><u>Criteria</u></p> <p>The Federal Agency requires the federal funds were deposited on a separate bank account or on an account for a special program, where the fund will be identify easily.</p> <p><u>Cause</u></p> <p>The federal funds were not deposited on a separate bank account.</p> <p><u>Effect</u></p> <p>The federal program cannot identify and verify the cash available to use.</p>	<p>\$ <u>-0-</u></p> 

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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Recommendation

The federal funds should be deposited and be managed in a separate bank account.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF LOÍZA  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF LOÍZA**  
**SCHEDULE OF STATUS OF PRIOR YEAR**  
**AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>SBGP</b> <b>CFDA</b> <b>No. 14.228</b>	<b>Condition 01-1</b> This program maintains a high balance in cash.	Condition still continues.
	<b>Condition 01-2</b> The program did not send on time the quarterly reports.	Condition still continues.
	<b>Condition 01-3</b> The program did not interview a contractor worker.	Condition was corrected.
	<b>Condition 01-4</b> A contract paid by funds of the program did not have the required clauses.	Condition still continues.

**EXHIBIT I**

**CORRECTIVE ACTION PLAN**

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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*Estado Libre Asociado de Puerto Rico*

*Gobierno Municipal*

*G.P.O. Box 508  
Loíza, Puerto Rico 00772*

*Teléfonos. 876-1040  
876-3570  
876-3536*

*Director de Finanzas*

## **CORRECTIVE ACTION PLAN**

November 8, 2002

Cognizant or Oversight Agency for Audit:

Municipality of Loíza respectfully submits the following corrective action plan for the year ended June 30, 2002

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2002

The findings from the June 30, 2002 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

#### **Finding 02-1: SBGP- CFDA 14.228**

Reportable Condition: See Condition 02-1

#### Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.

*" Loíza Capital de las Tradiciones "*

### Action Taken

The Municipality already established procedures to coordinate efficiently the request of funds in order to disburse immediately after receipt or within three business days.

### **Finding 02-2: SBGP - CFDA 14.228**

Reportable Condition: See Condition 02-2

### Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially with new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

### Action Taken

The Municipality is taking all the necessary procedures to become familiar with all administrative requirement in order to file all the required reports on time.

### **Finding 02-3: SBGP - CFDA 14.228**

Reportable Condition: See Condition 02-3

### Recommendation

In accordance with Federal Regulations, the program should improve their procedures and assure that all the contracts will contain the provisions established by the OMB Common Rule.

### Action Taken

The Municipality already has a model contract that will guarantee that the contracts will contain provisions established by the OMB Common Rule.

**Finding 02-4: SBGP - HOPWA - CFDA 14.241**

Reportable Condition: See Condition 02-4

Recommendation

The federal funds should be deposited and be managed in a separate bank account.

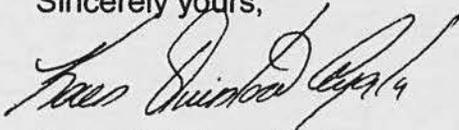
Action Taken

The Municipality already opened a new account called Municipality of Loíza - HOPWA, where only HOPWA fund will be deposited.

The Municipality already has a model contract that will guarantee that the contracts will contain provisions established by the OMB Common Rule

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call CPA Karen Quintana Ayala, Finance Director, at (787) 876-3570.

Sincerely yours,



Karen Quintana Ayala  
Finance Director