

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE MARICAO

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIPALES
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

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 MARICAO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL	
Independent Auditor's Report on Financial Statements	1-2
Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	5-6
Combined Statement of Revenues and Expenditures - Budget and Actual - General Fund and Debt Service Fund	7
Notes to Combined Financial Statements	8-27
Schedule of Expenditures of Federal Awards	28-29
Note to Schedule of Expenditures of Federal Awards	30
PART II - INTERNAL CONTROL	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31-32
Schedule of Reportable Conditions and Recommendations	33-37

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SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART III - COMPLIANCE	
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	38-39
Schedule of Findings and Questioned Costs	40-44
Schedule of Findings and Questioned Costs for the Prior Fiscal Year	45-46
PART IV - EXHIBIT	
I. Corrective Action Plan	

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Public Accountants
Management Consulting
Services Division
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INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying general purpose financial statements of the Municipality of Maricao, 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.

The Municipality did not kept adequate accounting records for the fiscal year under audit, and the accounting records did not contain all the information required to prepare the General Purpose Financial Statements. Such information was obtained from different sources, therefore, the accompanying financial statements may not reflect all of the Municipality's assets, liabilities, revenues and expenditures.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these general purpose financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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.

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, on pages 28 and 29 is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because the Municipality did not kept adequate accounting records for the fiscal year under audit.

San Juan, Puerto Rico
December 13, 2001

The stamp 1776298 was affixed
to the original of this report



Ortiz, Rodriguez, Rivera & Co.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

<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 certificate of deposits of \$701,651.63) (Note 2)	\$ 132,360	\$ 1,403,484	\$ -	\$ 19,394			\$ 1,555,238
Cash with fiscal agent (Note 2)		707,037	181,547	33,594			922,178
Accounts receivables:							
Interest	2,294						2,294
Due from other agencies (Note 7)	27,300	176,291					203,591
Due from other funds (Note 8)		1,424,488		4,692			1,429,180
Property and equipment (Note 6)					8,533,011		8,533,011
Amount available in debt service fund (Note 2)						181,547	181,547
Amount to be provided for retirement of general long-term debt						1,833,833	1,833,833
Amount to be provided through property tax collected for payment of related property tax advances (Note 10)						4,047,556	4,047,556
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						386,716	386,716
Total assets	\$ 161,954	\$ 3,711,300	\$ 181,547	\$ 57,680	\$ 8,533,011	\$ 6,449,652	\$ 19,095,144

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001**

Liabilities and Fund Equity	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Liabilities							
Bank overdraft	\$ 122,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122,620
Account payable and accrued liabilities	166,824	191,781		190,198			548,803
Due to other funds (Note 8)	1,424,091	5,089					1,429,180
Due to other agencies (Note 9)	1,086,780	8,667					1,095,447
Deferred revenues (Note 4)	124,095	836,920					961,015
Accrued vacations and sick leave (Note 1)						386,716	386,716
General long-term debts (Note 10)						1,985,380	1,985,380
Property tax advances (Note 10)						4,047,556	4,047,556
Claims and judgements (Note 12)						30,000	30,000
Total liabilities	2,924,410	1,042,457	-	190,198	-	6,449,652	10,606,717
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity (Déficit)							
Investment in general fixed assets					8,533,011		8,533,011
Fund balance							
Reserved for debt service	(81,371)		181,547				100,176
Undesignated (deficit) equity	(2,681,085)	2,668,843		(132,518)			(144,760)
Total fund equity (deficit)	(2,762,456)	2,668,843	181,547	(132,518)	8,533,011	-	8,488,427
Total liabilities and fund equity	\$ 161,954	\$3,711,300	\$ 181,547	\$ 57,680	\$8,533,011	\$ 6,449,652	\$ 19,095,144

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 410,542	\$ -	\$ 58,787		\$ 469,329
Municipal license taxes (Note 4)	53,020				53,020
Licenses and permits	245,088				245,088
Charges for service and rents	46,618				46,618
Inter-governmental revenues (Note 5):					
Federal grants and contributions	2,485,091	4,269,484		8,028	6,762,603
State contributions	382,970	1,091,629			1,474,599
Interest, fines, and penalties	76,750		8,962		85,712
Other revenues	641,902				641,902
Total revenues	4,341,981	5,361,113	67,749	8,028	9,778,871
EXPENDITURES					
Municipal council	56,067				56,067
Offices:					
Administrative Services	126,451				126,451
Mayor	323,311				323,311
Personnel	145,628				145,628
Departments:					
Civil Defense	201,885				201,885
Finance	1,765,549				1,765,549
Health	435,657				435,657
Public Works	1,719,445	2,438,480			4,157,925
Recreation	185,109				185,109
Capital outlays				28,620	28,620
Collection of property taxes applied to advances (Note 15)	322,166				322,166
General Government	51,580				51,580
Secretary	38,890				38,890
Welfare	33,310	3,323,472			3,356,782

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND EQUITY-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 287,985	\$ -	\$ 287,985
Interest payments (Note 10)			86,962		86,962
Total expenditures	<u>5,405,048</u>	<u>5,761,952</u>	<u>374,947</u>	<u>28,620</u>	<u>11,570,567</u>
Excess of (deficiency) of revenues over expenditures	<u>(1,063,067)</u>	<u>(400,839)</u>	<u>(307,198)</u>	<u>(20,592)</u>	<u>(1,791,696)</u>
OTHER FINANCING SOURCES (USES)					
Advances of property taxes (Note 3)	322,166				322,166
Operating transfer-in	9,743		259,385		269,128
Operating transfer-out	(259,385)		(9,743)		(269,128)
Loan proceeds					-
Total other financing sources (uses)	<u>72,524</u>	<u>-</u>	<u>249,642</u>	<u>-</u>	<u>322,166</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(990,543)</u>	<u>(400,839)</u>	<u>(57,556)</u>	<u>(20,592)</u>	<u>(1,469,530)</u>
FUND BALANCE (DEFICIENCY) AT BEGINNING OF YEAR	<u>(2,368,913)</u>	<u>3,069,682</u>	<u>239,103</u>	<u>111,926</u>	<u>1,051,798</u>
PRIOR YEAR ADJUSTMENT (Note 16)	<u>597,000</u>				<u>597,000</u>
FUND BALANCE (DEFICIENCY), RESTATED	<u>(1,771,913)</u>	<u>3,069,682</u>	<u>239,103</u>	<u>111,926</u>	<u>1,648,798</u>
FUND BALANCE (DEFICIENCY) AT END OF YEAR	<u>\$ (2,762,456)</u>	<u>\$ 2,668,843</u>	<u>\$ 181,547</u>	<u>\$ 91,334</u>	<u>\$ 179,268</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable Memorandum
REVENUES (Notes 1 and 15)						
Property taxes	\$ 408,382	\$ 410,542	\$ 2,160	\$ 88,855	\$ 58,787	\$ (30,068)
Municipal license taxes	200,000	53,019	(146,981)			-
Licenses and permits	426,578	245,088	(181,490)			-
Charges for service and rents	182,500	46,618	(135,882)			-
Inter-governmental revenues:						
State contributions	2,919,435	2,868,061	(51,374)			-
Interest, fines, and penalties	137,553	86,493	(51,060)		8,962	8,962
Other revenues	297,574	190,783	(106,791)			-
Total revenues	<u>4,572,022</u>	<u>3,900,604</u>	<u>(671,418)</u>	<u>88,855</u>	<u>67,749</u>	<u>(21,106)</u>
EXPENDITURES (Notes 1 and 15)						
Municipal council	66,524	56,067	10,457			
Offices:						
Administrative Services	127,819	126,451	1,368			
Mayor	344,014	323,311	20,703			
Personnel	149,471	145,628	3,843			
Departments:						
Civil Defense	205,062	201,885	3,177			
Finance	1,417,641	2,106,305	(688,664)			
Health	436,609	435,657	952			
Public Works	1,705,156	1,719,445	(14,289)			
Recreation	172,413	185,109	(12,696)			
Secretary	40,823	38,890	1,933			
Welfare	32,018	33,310	(1,292)			
Debt service; principal and interest payment	-	-	-	88,855	125,305	(36,450)
Total expenditures	<u>4,697,550</u>	<u>5,372,058</u>	<u>(674,508)</u>	<u>88,855</u>	<u>125,305</u>	<u>(36,450)</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>\$ (125,528)</u>	<u>\$(1,471,454)</u>	<u>\$ (1,345,926)</u>	<u>\$ -</u>	<u>\$ (57,556)</u>	<u>\$ (57,556)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Maricao, Puerto Rico (Municipality) was incorporated in 1874. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, 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 12 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 generally accepted accounting principles 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 more 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 MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

a) **Governmental Funds**

i. **General Funds**

The General funds are the general operating funds 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 Funds**

Debt service funds are 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 MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

b) **Fiduciary Funds**

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c) **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.

d) **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**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

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 a year end are reported as reservations of fund balances and do not constitute expenditures

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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.

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 Fund 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

**Scope of Public Service
Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Maricao indicate that the reporting entity consists of all funds and accounts groups included in the combined

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

10) 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.

2. CASH AND SHORT-TERM INVESTMENTS

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.

The Municipality maintains its cash accounts in one bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

b. Cash with Fiscal Agents

An additional special tax of 1.00% 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, 2001, the balance of cash retained by the Government Development Bank amounted to \$181,547.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2001, the balance of cash retained by the Government Bank available for the acquisition of real property and a federal program amounted to \$740,631.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 7.83% for real property and 5.83% 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	1.00%	1.00%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>7.83%</u>	<u>5.83%</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 MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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, 2001. 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 Maricao, 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 Maricao are as follows:

Financing institution	=	1.50%
Other organizations	=	1.25%

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 \$124,095, corresponding to the next fiscal year municipal license.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 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 at present is in the process of updating these records in order to maintain a proper system in its future.

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

Real property	\$1,910,176
Vehicles, equipment, and furniture	<u>6,663,835</u>
Total general fixed assets	<u>\$8,533,011</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
OCAM	\$ -	\$176,291	\$176,291
CRIM	2,160	-	2,160
AEE	<u>25,140</u>	<u>-</u>	<u>25,140</u>
Total	<u>\$27,300</u>	<u>\$176,291</u>	<u>\$203,591</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, 2001, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund		
Special Fund	\$ -	\$1,419,399
Capital Project Fund		4,692
Special Revenue Fund		
General Fund	1,419,399	
Special Revenue	5,089	5,089
Capital Project		
General Fund	<u>4,692</u>	<u>-</u>
	<u>\$1,429,180</u>	<u>\$1,429,180</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

9. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Water and Sewer Authority	\$ 71,036	\$ -	\$ 71,036
General Service Administration	8,125		8,125
Retirement System	24,233		24,233
Treasury Department	1,071		1,071
Puerto Rico Telephone Company	66,308		66,308
HUD		8,667	8,667
Labor Department	178,278		178,278
Internal Revenue Service	<u>737,729</u>	<u>-</u>	<u>737,729</u>
	<u>\$1,086,780</u>	<u>\$8,667</u>	<u>\$1,095,447</u>

10. GENERAL LONG-TERM DEBTS

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

Balance July 1, 2000	\$6,320,921
Payments	(<u>287,985</u>)
Balance June 30, 2001	<u>\$6,032,936</u>

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

Bonds

\$340,000 series of 1998, payable in annual installments of \$40,000 to \$60,000 until July 1, 2004, interest from 4.87% to 6.71%.	\$ 215,000
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

\$275,000 series of 2000, payable in annual installments of \$30,000 to \$50,000 until July 1, 2006, interest from 7.29% to 7.50%.	\$ 245,000
\$25,000 series of 2000, payable in annual installments of \$5,000 until July 1, 2004, interest from 7.29% to 8%.	20,000
\$890,000 series of 1998, payable in annual installments of \$60,000 to \$130,000 until July 1, 2007, interest from 6% to 8%.	<u>701,019</u> <u>1,181,019</u>
 <u>Other Long-term Debts</u>	
A payment plan with Department of Labor in monthly installments of \$15,358 until July 1, 2003, with a first payment of \$15,358.	552,910
A payment plan with Treasury Department in monthly installments of \$2,367 until September 1, 2009.	227,246
A payment plan of social security liability with Treasury Department in monthly installments of \$1,280 until February 1, 2003.	24,205
Property tax advance - 1998	1,338,469
Property tax advance - 1999	1,671,936
Property tax advance - 2000	<u>1,037,151</u> <u>4,851,917</u>
	<u>\$6,032,936</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The annual requirements for the amortization of general long-terms at June 30, 2001, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2002	\$1,292,303
2003	1,295,788
2004	1,301,965
2005	1,036,430
2006	720,226
2007-2011	<u>386,224</u>
	<u>\$6,032,936</u>

As described in Note 3, the Municipality levies an annual special tax of 1.00% 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 General Government of Puerto Rico and its Instrumentalities (ESR) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

The Systems 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 of members who have attained an age of at least fifty-eight (58) years and have completed 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.

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 actuarially determined contribution requirement and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

contributions actually made for the year ended June 30, 2000 was \$133,508. The Municipality's payroll for employees covered by ESR was \$1,439,436. The Municipality total payroll for all employees was \$3,393,717.

c. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available

Trend information prior to 1999 is not available

For a ten-year trend information, refer to the separately issued financial statements of the Employee's Retirement System as of and for the year ended June 30, 2001.

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 believed that any required reimbursements would not be material.
- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The Municipality's management and counsels believe that is probable that a liability will incurred in a future, and estimated loss would be approximately a total of \$30,000.

13. COMMITMENTS

The Municipality of Maricao had several outstanding or planned construction projects as of June 30, 2001. 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 \$768,982.

14. 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 generally accepted accounting principles.

The principal difference between budgetary basis and accounting principles generally accepted in the United States of America, 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 accounting principles generally accepted in the United States of America.
- c. Under accounting principles generally accepted in the United States of America, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the accounting principles generally accepted in the United States of America to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Accounting principles generally accepted basis	\$4,341,981	\$5,405,048
Plus advances of property taxes recorded as revenue on the budgetary basis	322,166	-
Plus current year encumbrances recorded as expenditures on the budgetary basis.	-	81,371
Plus transfer in/out	9,743	259,385
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	(322,166)	(322,166)
Revenues and expenditures not recorded as revenue or expense on the budgetary basis.	(<u>451,120</u>)	(<u>51,580</u>)
Budgetary basis	<u>\$3,900,604</u>	<u>\$5,372,058</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

15. MUNICIPAL SOLID WASTE LANDFILL CLOSURE

The Municipality of Maricao discontinued the landfill operation on 1993 according to United States Environmental Protection Agency (EPA) feasibility study at the site to determine the estimated cost to closure and post-closure cost the landfill was estimated in \$1,900,000. State and Federal laws and regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance function at the landfill for 30 years after closure.

16. BEGINNING FUND BALANCE RESTATEMENT

Beginning Fund Balances of General Fund have been restated by accounting adjustments for accounting errors detected during the fiscal year that affect the Fund Balance of this Governmental Fund, as follows:

Beginning Fund Balance (Deficiency)	(\$2,368,913)
Cancellation of prior year account payable as per accounting records	<u>597,000</u>
Beginning Fund Balance (Deficiency) restated	<u>(\$1,771,913)</u>

17. SUBSEQUENT EVENT

The New Governmental Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary views document and exposure draft and conducting public hearings and focus groups.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements.
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15, 2001; for those with revenues of \$10 million to \$100 million, years beginning after June 15, 2002; and for those with revenues of less than \$10 million, years beginning after June 15, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Pass-through Commonwealth of Puerto Rico Commissions Office of Municipal Affairs Community Development Block Grant-State Program SBGP	14.228	\$2,438,480
Direct Programs		
Section 8 - Rental Voucher Program	14.855	49,041
Section 8 - Rental Certificate Program	14.857	<u>67,154</u>
Subtotal U.S. Department of HUD		<u>2,554,675</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Governors Office for Administration for Children and Families Child Care and Development Block Grant Drug Prevention	93.575	93,096
	93.144	22,546
Passed through State of Office of Governor- Office of Economic Opportunity; then Office of Human Development Community Service Block Grant	93.569	<u>3,432</u>
Subtotal U.S. Department of HUD		<u>119,074</u>
U.S. Department of Agriculture		
Pass through the Governor's Office of Child Services and Community Development Child and Adult Care Food Program	10.558	<u>1,208</u>
Subtotal U.S. Department of Agriculture		<u>1,208</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)		
Disaster Assistance		
Emergency Management - State and Local Assistance	83.545	\$ <u>659,413</u>
Subtotal U.S. FEMA		<u>659,413</u>
U.S. Department of Justice		
Pass-through the Governor's Office of Community Oriented Policing Services Cops Hiring Program	16.711	<u>37,605</u>
Subtotal U.S. Department of Justice		<u>37,605</u>
TOTAL		<u>\$3,371,975</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Maricao and is presented on the 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 this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

	<u>Special Fund</u>
Total federal expenditures per schedule	\$3,371,975
Total non-federal expenditures accounted for the Special Revenue Fund of the General Purpose Financial Statements	<u>2,389,977</u>
Total expenditures accounted for in the Special Revenue Fund of the General Purpose Financial Statements	<u>\$5,761,952</u>



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Public Accountants
Management Consulting
Services Division
NACVA

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT
OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We were engaged to audit the general financial statements of the Municipality of Maricao as of and for the year ended June 30, 2001, and have issued our report thereon dated December 13, 2001, which was a disclaimer because the Municipality did not keep adequate accounting records to prepare the general purpose financial statements. 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 Maricao'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 test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the schedule of reportable conditions and recommendations as items 1 to 3. We also noted certain immaterial instances of noncompliance that have reported to management of the Municipality of Maricao in a separate letter dated December 13, 2001.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Maricao's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on 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 Maricao'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 and 2.

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, of the reportable conditions described above, we consider item 3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Maricao, in a separate letter dated December 13, 2001.

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
December 13, 2001

The stamp 1776299 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ACCOUNTING SYSTEM

We noted that the Municipality of Maricao is not keeping an accounting system as required by General Accepted Accounting Principles 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 account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

Recommendation

We recommend the Municipality of Maricao that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide the following.

That the Municipality's operations are accounted for through several separate funds and account groups, accounting 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 fund and accounts groups:

a. Governmental Funds

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 MARICAO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, 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 Agency, 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 MARICAO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 Municipal Long-term Debt; except those accounted in the Proprietary and Trust Funds.

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

During the audit we noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

- d. There is no supervision process to verify if each department keeps adequate control of the inventory.

Recommendation

To improve the internal controls in the area of property, the following procedures should be implemented by the Property Custodian in coordination with the Finance Director:

- a. It is recommended to take a physical inventory once a year. Any discrepancies found should be investigated and proper action taken.
- b. The Department of Property must perform periodical surprise physical observations and/or verification of the related assets to determine their existence and condition.
- c. The Department of Property must record the expenditures for financing charges of issued long-term debts.
- d. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.

3. ACCOUNTING RECORDS

During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:

- a. We observed that the accounting records and the information provided by the Municipality contains material errors which we conclude there are transactions realized during the fiscal year 2000-2001 and that were not recorded on the accounting books of the Municipality.
- b. Significant adjustments had to be made during the audit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

- c. Then some bank's reconciliations are not signed as approved by the Finance Director.
- d. The Municipality maintains several cash accounts which are either inactive or have limited activity.
- e. The Municipality does not prepared the Form 941PR during 2000-2001.
- f. The Municipality did not submit payment to Internal Revenues Systems, Retire System & Department of Labor.

Recommendation

We recommend to the Municipality to maintain a good internal control system in order that all income and expenditure transactions will be record on accounting books correctly. Moreover, the Municipality must to prepare the bank reconciliations of all accounts of the Municipality as required by the Law of Autonomy Municipality on Chapter 8, Article 8.10(j).



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
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Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division
NACVA

**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 Maricao
Maricao, Puerto Rico

Compliance

We have audited the compliance of Municipality of Maricao with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Municipality of Maricao'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 Maricao's management. Our responsibility is to express and opinion on Municipality of Maricao'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 Maricao'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 Maricao's compliance with those requirements.

In our opinion, Municipality of Maricao complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 01-1, 01-2 and 01-3.

Internal Control over Compliance

The management of Municipality of Maricao 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 Maricao'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
December 13, 2001

The stamp 1776300 was affixed
to the original of this report.



Ortiz, Rodriguez, Rivera & Co.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a disclaimer opinion on the general purposes financial statements of the Municipality of Maricao.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Maricao were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Maricao express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Maricao 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 Maricao was determined to be a high-risk audit.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on pages 33 to 37.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA 14.228	Condition 01-1 During the audit, we observed the following disbursement vouchers included some documents without signatures required.	\$ <u>-0-</u>

<u>Date</u>	<u>Name</u>	<u>Check No.</u>	<u>Voucher Number</u>	<u>Amount</u>
12-20-00	Director de Finanzas	726	01-376	\$ 30,784
02-12-01	Comercial Furnías	739	01-0488	11,476
04-30-01	A.L.R.C.	778	01-0861	68,126
02-31-01	González Tele Electric	787	01-0918	28,890
12-18-01	Ferretería Agrícola	720	01-0370	13,612
02-21-01	Director de Finanzas	748	01-0497	38,860
04-30-01	Ferretería Agrícola	767	01-0567	10,441
11-18-00	Ferretería Agrícola	704	01-0285	<u>14,825</u>
				<u>\$217,014</u>

Cause

The Municipality does not verify the document completely.

Effect

The disbursement vouchers and the documents related are not completed.

Criteria

The Municipal Law establishes on Chapter IV: "The voucher and the documents related must be verify before approved by the pre-interventor official."

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>We recommend to the Federal Program of the Municipality of Maricao that establishes a procedures with the disbursement vouchers were review more specifically to avoid this situation.</p>	
<p>SBGP CFDA No. 14.228</p>	<p><u>Condition 01-2</u></p> <p>During the audit, we observed the following vouchers or documents related were not cancelled as paid.</p>	<p><u>\$ -0-</u></p>

<u>Date</u>	<u>Name</u>	<u>Check No.</u>	<u>Voucher Number</u>	<u>Amount</u>
11-18-00	Ferreteria Agrícola	704	01-0285	\$14,825
12-20-00	Ferretaria Agrícola	723	01-0373	<u>12,889</u>
				<u>\$27,714</u>

Cause

The disbursement vouchers were not verified completely.

Effect

The documents mentioned are incomplete and do not complied with the regulations established.

Criteria

The Municipal Law establishes that all the disbursements must to be justified, and for internal control rule these documents should be cancelled as paid to avoid its will be pay twice.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p style="text-align: center;"><u>Recommendation</u></p> <p>The Municipality should give instructions that when the payment were realized, the documents were cancelled as paid immediately.</p>	
<p>SBGP CFDA No. 14.228</p>	<p>Condition 01-3</p> <p>The Municipality has two projects financed by federal funds that generate program income. We cannot observe the accountability on the federal program office of the income and disbursement of this concept, to verify the report submitted to the Municipal Council was correct.</p> <p><u>Criteria</u></p> <p>As required by the Circular 00-18 of the Municipal Council Office, when the Municipality generates program income, it should complete a report for a natural year of this income. The report must be prepared by the Federal Program Director in connection with the Finance Director and the Major.</p> <p><u>Cause</u></p> <p>The Municipality does not have the accountability of the program income available.</p> <p><u>Effect</u></p> <p>The federal program does not comply with the regulation established by the Municipal Council</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

We recommend to the Municipality that establishes a record on which we can verify the accountability of the program income. The report should be prepared by the correct information.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 MARICAO
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA 14.228	Condition 00-1 Noncompliance with cash management requirements. The Municipality maintains cash balance in excess of \$5,000.	Condition was corrected.
Section 8 CFDA 14.855 CFDA 14.857	Condition 00-2 Some documents were not included on different participants' files.	Condition was not observed.
SBGP CFDA 14.228	Condition 99-1 Noncompliance with cash management requirements. The program does not maintain the balance in the bank accounts that should not exceed more than \$5,000.	Condition was corrected.
Section 8 Existing 14.857 Voucher 14.855	Condition 99-2 Noncompliance with cash management requirements. The Municipality held cash balances more than \$5,000 for periods longer than three days.	Condition was corrected.
Section 8 Voucher 14.855	Condition 99-3 During the test of eligibility, two participants were not eligible to receive Section 8 benefits:	Condition was not observed.
	Contract #MAV-03 \$3,504 Contract #MAV-13 <u>1,020</u>	
	<u>\$4,524</u>	

CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

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Modesto Ayala Quiñones
Director de Finanzas

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Gobierno Municipal de Maricao

Oficina del Director de Finanzas
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Maricao, Puerto Rico 00606

Tels. (787) 838-2290
838-2480
Fax. 838-2592

CORRECTIVE ACTION PLAN

December 13, 2001

Cognizant Oversight Agency for Audit:

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

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

Audit period: Fiscal year ended June 30, 2001

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

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

Finding 01-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 01-1

Recommendation

The Municipality should establish a procedure in which the disbursement vouchers were review more specifically to avoid this situation.

Action Taken

The finance personnel was instructed, not accept any disbursement vouchers with out the correspondent authorized signatures and designated the Pre-Interventor official to verify this situation always.

Finding 01-2: SBGP - 14.228

Reportable Condition: See Condition 01-2

Recommendation

The Municipality should give instructions that when the payment were realized, the documents were cancelled as paid immediately.

Action Taken

The Paymasters office was instructed to verify and make sure the all vouchers were stamped cancelled, always after payment.

Finding 01-3: SBGP - CFDA 14.228

Reportable Condition: See Condition 01-3

Recommendation

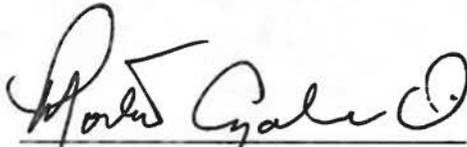
We recommend to the Municipality that establishes a record on which we can verify the accountability, in order to prepare the reports with the correct amount.

Action Taken

An account was opened at the Banco Popular under the name of "Program Income - Programa Federales". The account number is 174-111169. This account is already been used for the deposit of the percentage amount correspondent to the program income, accountabilty.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call at (787) 838-2515.

Sincerely yours,



Modesto Ayala Quiñones
Finance Director
Municipality of Maricao