

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

MUNICIPIO DE RINCON
AUDITORIA 2000-01
30 DE JUNIO DE 2001

OFIC. DEL COMISIONADO
DE ASUNTOS MUNICIPALES

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GENERAL PURPOSE FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT CERTIFIED PUBLIC
ACCOUNTANTS WITH ADDITIONAL REPORTS
REQUIRED UNDER THE OMB CIRCULAR A-133

MUNICIPALITY OF RINCON

JUNE 30, 2000

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Report of Independent Certified Public Accountants

Mayor and Municipal Council
Municipality of Rincón
Rincón, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Rincón, Puerto Rico, as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the third and fourth paragraphs, we conducted our audit 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 the provisions of the Office of Management and Budget Circular A-133 "Audits of States, Local Governments and Non Profit Organizations". Those standards and the OMB Circular A-133 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to form an opinion regarding due from (to) other funds between general, special revenue and capital project funds; fund balance of general fund; and the general fixed assets account group as reported in the general purpose financial statements because of the inadequacy of accounting records and reports, which do not permit the application of adequate alternative procedures.

We were unable to test accrued vacations and sickleave since an adequate estimate has not been determined by the Municipality. We were unable to satisfy ourselves about accrued vacations and sickleave by means of other auditing procedures.

As more fully described in Note D(12), the Municipality has not determined an adequate estimate of the solid waste landfill postclosure care costs as required by generally accepted accounting principles. The effect of this departure from generally accepted accounting principles on the accompanying general purpose financial statements is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had records described in third and fourth paragraphs been adequate, and for the effects of not including an adequate estimate of the solid waste landfill postclosure care costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Rincón, Puerto Rico, as of June 30, 2000, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2001 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Municipality of Rincón, Puerto Rico, 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 and 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 in that schedule 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.



Rodriguez Rivera & Toro LLP

Mayagüez, Puerto Rico
May 31, 2001

Municipality of Rincón

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2000

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long- Term Debt	
ASSETS AND OTHER DEBITS							
Cash and certificates of deposit (note D1)	\$ 183,216	\$ 1,864,299	\$ -	\$ -	\$ -	\$ -	\$ 2,047,515
Receivables (net where applicable of allowance for uncollectible)							
State Governmental Agencies	33,000	259,848	-	-	-	-	292,848
Due from other funds (note D2)		815,119	-	-	-	-	815,119
Restricted assets							
Cash (note D3)		45,528	106,475	34,323	-	-	186,326
Property, plant and equipment (note D4)	-	-	-	-	9,460,469	-	9,460,469
Amount available in debt service fund	-	-	-	-	-	106,475	106,475
Amount to be provided for retirement of general and special obligation bonds and notes	-	-	-	-	-	1,141,525	1,141,525
Amount to be provided for retirement of other long-term debt	-	-	-	-	-	2,706,309	2,706,309
Total assets and other debits	<u>\$ 216,216</u>	<u>\$ 2,984,794</u>	<u>\$ 106,475</u>	<u>\$ 34,323</u>	<u>\$ 9,460,469</u>	<u>\$ 3,954,309</u>	<u>\$ 16,756,586</u>

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

Municipality of Rincón

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS

June 30, 2000

	Governmental Funds				Account groups		Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long- Term Debt	
LIABILITIES							
Vouchers and accounts payable	\$ 122,089	\$ 281,296	\$ -	\$ -	\$ -	\$ -	\$ 403,385
Claims payable (note G2)	352,958	-	-	-	-	-	352,958
Due to state governmental agencies (note D5)	84,371	-	-	-	-	-	84,371
Accrued liabilities	53,760	-	-	-	-	-	53,760
Deposits payable	55,612	-	-	-	-	-	55,612
Due to other funds (note D2)	724,594	-	-	90,525	-	-	815,119
Deferred revenues (note D6)	180,070	15,287	-	-	-	-	195,357
General and special obligations bonds and notes (note D7)	-	-	-	-	-	1,248,000	1,248,000
Other long-term debt (note D7)	-	-	-	-	-	2,706,309	2,706,309
Total liabilities	1,573,454	296,583	-	90,525	-	3,954,309	5,914,871
Contingencies (note E)							
FUND EQUITY AND OTHER CREDITS							
Investment in general fixed assets	-	-	-	-	9,460,469	-	9,460,469
Fund balance							
Unreserved	-	-	-	-	-	-	-
Designated for subsequent years expenditures (note F)	-	2,688,211	-	(56,202)	-	-	2,632,009
Designated for debt service	-	-	106,475	-	-	-	106,475
Undesignated	(1,357,238)	-	-	-	-	-	(1,357,238)
Total fund equity and other credits	(1,357,238)	2,688,211	106,475	(56,202)	9,460,469	-	10,841,715
Total liabilities, fund equity and other credits	\$ 216,216	\$ 2,984,794	\$ 106,475	\$ 34,323	\$ 9,460,469	\$ 3,954,309	\$ 16,756,586

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

Municipality of Rincón

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year ended June 30, 2000

	Governmental Funds				Total (Memorandum only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes (note D8)	\$ 872,025	\$ -	\$ 262,033	\$ -	\$ 1,134,058
Municipal license taxes, licenses and permits (note D9)	332,844	-	-	-	332,844
Intergovernmental (note D10)	2,882,375	4,103,548	-	536,706	7,522,629
Rental income of properties	276,463	-	-	-	276,463
Fines and forfeitures	1,675	-	-	-	1,675
Interest	35,347	-	11,724	-	47,071
Other income	67,355	13,762	-	-	81,117
Total revenues	4,468,615	4,117,310	273,757	536,706	9,396,388
Expenditures					
General government	1,718,412	740,166	-	-	2,458,578
Public safety	475,577	154,217	-	-	629,794
Highway and streets	764,609	915,461	-	-	1,680,070
Sanitation and public works	1,323,839	64,969	-	-	1,388,808
Health	277,990	-	-	-	277,990
Welfare	11,031	380,099	-	-	391,130
Culture and recreation	350,709	15,498	-	-	366,207
Education	-	18,327	-	-	18,327
Capital projects	-	1,829,313	-	-	1,829,313
Other	632,846	-	-	555,085	1,187,931
Debt service					
Principal	-	-	440,227	-	440,227
Interest	-	-	87,891	-	87,891
Total expenditures	5,555,013	4,118,050	528,118	555,085	10,756,266
Excess (deficiency) of revenues over expenditures	(1,086,398)	(740)	(254,361)	(18,379)	(1,359,878)
Other financing sources (uses)					
Liabilities expected to be refinanced (note G1)	515,978	-	-	-	515,978
Operating transfers in (out)	(233,065)	-	233,065	-	-
Total other financing sources (uses)	282,913	-	233,065	-	515,978
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(803,485)	(740)	(21,296)	(18,379)	(843,900)
Fund balance at beginning of year	(553,753)	2,688,951	127,771	(37,823)	2,225,146
Fund balance at end of year	\$ (1,357,238)	\$ 2,688,211	\$ 106,475	\$ (56,202)	\$ 1,381,246

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

Municipality of Rincón

COMBINED STATEMENT OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (BUDGET-STATUTORY) GENERAL AND DEBT SERVICE FUND TYPES

Year ended June 30, 2000

	General Fund		Variance Favorable (Unfavorable)	Debt Service		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
Revenues						
Property taxes	\$ 761,510	\$ 761,510	\$ -	\$ 276,872	\$ 262,033	\$ (14,839)
Municipal license taxes, licenses and permits	471,700	332,844	(138,856)	-	-	-
Intergovernmental	2,956,453	2,869,395	(87,058)	-	-	-
Rental income of properties	235,000	243,463	8,463	-	-	-
Fines and forfeitures	2,000	1,675	(325)	-	-	-
Interest	8,500	47,509	39,009	-	11,724	11,724
Other income	284,000	67,886	(216,114)	-	-	-
Total revenues	<u>4,719,163</u>	<u>4,324,282</u>	<u>(394,881)</u>	<u>276,872</u>	<u>273,757</u>	<u>(3,115)</u>
Expenditures						
General government	1,667,475	1,544,884	122,591	-	-	-
Public safety (note B)	445,288	475,577	(30,289)	-	-	-
Highway and streets (note B)	596,001	608,405	(12,404)	-	-	-
Sanitation and public works (note B)	1,259,864	1,323,839	(63,975)	-	-	-
Health	277,990	277,990	-	-	-	-
Welfare	11,031	11,031	-	-	-	-
Culture and recreation	406,142	350,709	55,433	-	-	-
Other (note B)	55,372	133,976	(78,604)	-	-	-
Debt service						
Principal	-	-	-	276,872	195,000	81,872
Interest	-	-	-	-	87,891	(87,891)
Total expenditures	<u>4,719,163</u>	<u>4,726,411</u>	<u>(7,248)</u>	<u>276,872</u>	<u>282,891</u>	<u>(6,019)</u>
Excess (deficiency) of revenues over expenditures	-	(402,129)	(402,129)	-	(9,134)	(9,134)
Other financing sources (uses)						
Operating transfers in (out)	-	-	-	-	(12,162)	(12,162)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,162)</u>	<u>(12,162)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ (402,129)</u>	<u>\$ (402,129)</u>	<u>\$ -</u>	<u>\$ (21,296)</u>	<u>\$ (21,296)</u>

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

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Rincón was founded in the year 1770. The Municipality is comprised by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The mayor is the executive officer and the legislative branch consists of twelve members of the Municipal Council. The Municipality provides benefits to the community such as: health, public works, environmental control, human resources, education, public security, housing and community development, culture and recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the general purpose financial statements of the Municipality of Rincón (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The basic criteria for deciding financial accountability are any one of the following:

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and
 - 1) The primary government can impose its will on the potential component unit and/or
 - 2) A financial benefit/burden exists between the primary government and the potential component unit.

Based on the above criteria there are no potential component units, which should be, included as part of the general purpose financial statements.

2. Basis of presentation

The financial transactions of the Municipality are recorded in individual funds and account groups. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The various funds and account groups are reported by general classification within the financial statements. Amounts in the "Total (Memorandum Only)" columns in the general purpose financial statements represent a summation of the financial statement line items of the fund types and account groups and are presented for information purposes only. This total includes interfund transactions that have not been eliminated and the caption "amounts to be provided", which is not an asset in the usual sense. Consequently, amounts shown in the "Total (Memorandum Only)" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures of the Municipality. The following fund types and account groups are used by the Municipality:

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

a. *Governmental Funds*

Governmental Funds are those through which most governmental functions of the Municipality are financed. The acquisition, uses, and balances of the Municipality expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The Municipality records its transactions following the accounting and reporting guidelines established in the Municipal Law of 1991. The following are the Municipality's Governmental Fund Types:

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

Special Revenue Fund. Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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 and interest.

Capital Project Fund. Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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:

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

General Fixed Assets Account Group. This group of accounts is established to maintain control and cost information account for all fixed assets of the Municipality. General Fixed Assets are recorded as expenditures of the various Municipality funds at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. Such assets include land, building, building improvements, furniture and equipment. The cost of certain roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets are not capitalized. No depreciation is provided on General Fixed Assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

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

3. *Basis of accounting*

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

a. *Governmental Funds*

These funds use the modified accrual basis of accounting. Under this basis of accounting revenues are recognized when susceptible to accrual; that is, when they are both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Intergovernmental revenues are considered

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

earned and are accrued simultaneously with the grant expenditures unless such recognition is prohibited by the grant requirements, amounts represent unrestricted receipts or amounts are revocable only for failure to comply with prescribed compliance requirements. In such cases revenues are usually recognized as the time of receipt. Licenses and permits, charges for services, rent and miscellaneous revenues are recorded as revenues when received because they are not measurable and available. Expenditures are generally recognized when the related liability is incurred. Exceptions to this rule are: (1) accumulated unpaid vacations, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt in the debt service funds, which are recorded as expenditures when due.

4. *Budgetary data*

a. *Budget policy*

Budgets are prepared for General and Debt Service Funds following the requirements of the Municipal Law. Although all operating expenses and expenditures are allocated to departmental operating budgets, certain items are not considered to be subject to direct control at the department level. These include; terminal leave payments, payroll taxes, pension costs, court costs and settlements, telephone and electricity expenses and liability, workers compensation and property insurance premiums. Budget amendments, which require a change in total appropriations of any department, are approved by the Municipal Council. Certain budget transfers within the limitations and restriction of the Municipal Law can be approved by the Executive Branch or by the Legislature Branch. The budgets are prepared on a budgetary (statutory) basis of accounting, which is different from GAAP, and reflect encumbrance accounting as described below. In instances where budget appropriations have been revised during the year, budget amounts presented in the financial statements and schedules represent final authorization amounts. Estimated revenue presented represent final authorization amounts. Unencumbered appropriations are lapsed at year end. Formal budgetary information is employed as a management control device during the year for the General and

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Debt Service Funds. Formal budgetary integration is not employed for Special Revenue, and Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

b. *Encumbrances*

On a GAAP basis, encumbrances outstanding at year end are reported in the general purpose financial statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary (statutory) basis, encumbrances are recorded as expenditures of current year.

5. *Insurance coverage*

The Department of Treasury acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of Rincón consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Payment of the Municipality's insurance premiums are withheld quarterly from property tax advances and city subsidies.

6. *Compensated absences*

The Municipality's employee accumulate vacation and sick leave based on continuous service. The vacation and sick leave for employees are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick pay is liquidated to employees with 10 years or more of service up to the maximum number of days. The amount of vacations leave is accrued if earned based on services already performed by employees and if it is probable that will be paid in a future period. Amount of sick leave is accrued based on all vesting amounts for which payment is probable and on accumulated benefits as of the balance

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

sheet date. The accrual of compensated absences includes estimated payments that are related to payroll. The accrued expenditures for accumulated vacations and sick pay have been recorded in the General Long-term debt account group since it is anticipated that none of the liabilities already accrued will be liquidated with expendable available resources. Vacations and sick leave, when paid, are recorded as expenditures in the General Fund.

NOTE B - STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY

For the year ended June 30, 2000 the public safety, highway and streets, sanitation and public works and other expenditures categories in the general fund disclosed excess of expenditures over appropriations in the statement of revenues and expenditures, budget and actual. The excess occurred primarily due to charges for salaries, fringe benefits, payroll taxes, electricity, and payments for statutory and prior years debts.

NOTE C - RECONCILIATION OF DIFFERENCES BETWEEN BUDGET -
STATUTORY BASIS TO GAAP

The Municipality's Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types have been prepared in accordance with GAAP and the Combined Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget-Statutory) General and Debt Service Fund has been prepared on the budgetary basis, which is different from GAAP. The following reconciles the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses in both statements:

Excess (deficiency) of revenues and other financing sources over expenditures (Budgetary – Statutory basis)	\$ (402,129)
Add: Revenues accrued under GAAP but not in budgetary basis	672,473
Less: Expenditures accrued under GAAP but not in budgetary basis	<u>(1,073,829)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ (803,485)</u>

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

1. *Cash*

The Municipality follows the practice of pooling cash of all funds except for restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. The method of allocating interest earned on pooled investment among governmental fund types provides that, unless otherwise restricted, all interest is credited to the General Fund. Deposits were with the contracted depository bank in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and by pledged Puerto Rico and U.S. Governmental Securities held by PR Treasury Department in the name of the depository bank.

2. *Due from (to) other funds*

The amount presented as due from (to) other funds represent cash pertaining to other funds pooled in the general fund current bank account, and interfund borrowings.

3. *Restricted assets - cash*

Restricted cash balance in the general, special revenue and capital projects funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Governmental Development Bank of Puerto Rico or a federal government instrumentality. Cash balance recognized in the debt service fund represent the undisbursed balance of property tax collections, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes. This sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payor of the Municipality's bonds and notes issued in accordance with the law. Interest earned by this sinking fund during the fiscal year 1999-2000 amounted to \$11,724.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

4. *Property, plant and equipment*

A summary of the General Fixed Assets Account Group transactions follows:

	<u>Real Estate</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Balance at June 30, 1999	\$ 4,783,499	\$ 3,056,011	\$ 858,479	\$ 8,697,989
Additions	-	762,480	-	762,480
Balance at June 30, 2000	<u>\$ 4,783,499</u>	<u>\$ 3,818,491</u>	<u>\$ 858,479</u>	<u>\$ 9,460,469</u>

5. *Due to state governmental agencies*

The Municipality debt to governmental entities as of June 30, 2000 follows:

Puerto Rico Water and Sewer Authority	\$ 17,968
Puerto Rico Retirement System Administration	30,887
Puerto Rico Electric Power Authority	<u>35,516</u>
	<u>\$ 84,371</u>

6. *Deferred Revenues*

The amounts presented as deferred revenues in the general fund includes the following:

Municipal License Tax (note D9)	<u>\$ 180,070</u>
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Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

7. Long-term debts

a. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2000 amounted to \$1,248,000. All these bonds are serviced by the Governmental Development Bank for Puerto Rico (a governmental agency) maturing at various dates. The Commonwealth Government is obligated to levy and collect the taxes for payment of principal and interest on the bonds. A sinking fund has been established for the bonds at the Governmental Development Bank whereby sufficient funds must be set aside to redeem the bonds in minimum annual principal and interest amounts. Principal and interest payments of long-term debts issued to finance operations of the general fund are made through retention to intergovernmental revenues by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2000 follows:

Original Amount	Description	Maturity	Rate	Outstanding
\$ 66,000	Public Improvement Bond	January 1 st , 2003	5.00%	\$ 9,000
215,000	Special Obligation	July 1 st , 2002	8.20%	50,000
721,000	Public Improvement Bond	January 1 st , 2017	5.00%	604,000
75,000	General Obligation Bond	July 1 st , 2005	8%	50,000
60,000	General Obligation Bond	July 1 st , 2002	7.5%	30,000
705,000	General Obligation Bond	July 1 st , 2004	Variable	505,000
				<u>\$ 1,248,000</u>

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

b. *Other long-term debts*

Other long-term debt is comprised of the following:

Nonexonerated Property Tax Advances (note D8)	\$ 1,292,265
Liabilities expected to be refinanced (note G1)	728,076
Liability for accumulated vacations and sick leave benefits (note A6)	543,331
Unemployment benefits paid by the Puerto Rico Department of Labor in behalf of the Municipality	<u>142,637</u>
	<u>\$ 2,706,309</u>

The liability of accrued vacations and sick leave represents the balance as of June 30, 1999. The final balance as of June 30, 2000 has not been determined.

The annual requirements to amortize all long-term obligations outstanding other than the liability for accumulated vacations and sick leave, municipal landfill obligation, unemployment benefits and debt to Puerto Rico Electric Power Authority as of June 30, 2000 are as follows:

Maturing at June 30,	General and Special Obligation Bonds and Notes		Non exonerated property tax Advances
	Principal	Interest	
2001	\$ 191,000	\$ 76,350	\$ 10,015
2002	197,000	63,025	10,015
2003	169,000	49,300	10,015
2004	177,000	37,950	10,015
2005	38,000	26,000	10,015
Thereafter	<u>476,000</u>	<u>169,000</u>	<u>41,735</u>
	<u>\$ 1,248,000</u>	<u>\$ 421,625</u>	<u>\$ 91,810</u>

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

During the fiscal year 1999-2000 the Municipal Revenue Collection Center (CRIM) withheld the liability of non-exonerated property tax advances for the period ended June 30, 1993 which totals \$91,810 as of June 30, 2000. The remaining \$1,200,455 will be retained by the CRIM subsequent to fiscal year 1999-2000. The balance as of December 2000 will be refinanced through the issuance of long-term debt. See related note G(3).

c. Changes in general long-term debts

	Balance at June 30, 1999	Net Additions	Net Retirements	Balance at June 30, 2000
General obligation bonds	\$ 1,443,000	\$ -	\$ 195,000	\$ 1,248,000
Other long term debts	2,325,832	884,158	503,681	2,706,309
	<u>\$ 3,768,832</u>	<u>\$ 884,158</u>	<u>\$ 698,681</u>	<u>\$ 3,954,309</u>

8. *Property taxes*

The Municipal Revenue Collection Center (CRIM) (a state government agency) is responsible for the assessment, collection and distribution of real and personal property taxes in accordance with the Municipal Property Tax Law (Law 83 of August 1991). The tax levied on property is determined by the Municipal Government based on limits established by the Commonwealth Legislature. The tax on personal property is self assessed by the taxpayer. The assessment is made on a return, which must be filed, with the CRIM by May 15 of each year. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid in two equal installments, July 1st and January 1st. Property taxes are recorded as revenue by the Municipality in the year of receipt.

The CRIM advance funds to the Municipality based on an estimate of state governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. The CRIM collects such taxes and delivers to the Municipality's government any excess of taxes collected over the tax advance and amounts assigned (withheld) for the repayment of the bond obligations.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

As part of the requirements of the new Autonomous Municipal Law (Law number 80 of August 30, 1991), the CRIM determined a final liquidation of funds distributed to municipalities for the fiscal year ended June 30, 2000. This distribution includes advances of property tax and income derived from other subsidies from the state government. A detail of the final liquidation follows:

Current year transactions:

Total revenue determined to Municipality	\$ 3,130,871
Estimate of revenue utilized by CRIM	<u>(2,952,486)</u>
Excess of determined revenues	178,385
Other adjustments (net)	<u>(157,964)</u>
Final excess of actual revenue over estimates:	20,421
Less: amount advanced by CRIM (50% of preliminary liquidation balance)	<u>(66,098)</u>
Amount payable period ended June 30, 2000	45,677
Amount payable period ended June 30, 1999	483,076
Amount payable period ended June 30, 1998	671,702
Amount payable period ended June 30, 1993	<u>91,810</u>
Total payable to CRIM, June 30, 2000	<u><u>\$ 1,292,265</u></u>

9. *Municipal license taxes, licenses and permits*

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location based generally on volume of business or gross sales. The Municipal license tax return should be submitted on April 15. If the tax is paid within the filing date a discount is allowed. If it is not paid on the filing date it can be paid in two equal installments (July 1 and January 1 following April 15 filing due date), but the discount is not allowed.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

Amounts collected in advance pertaining to next fiscal period are reported as deferred revenue in the General Fund.

10. *Intergovernmental revenues*

Intergovernmental revenues in the General Fund are comprised of subsidies received from the Commonwealth of Puerto Rico and amounts received from state agencies as compensation in lieu of tax and in the Special Revenue Fund of federal and state governmental grants.

11. *Retirement plan*

a. *Plan description*

Regular employees of the Municipality contributes to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits. Retirement benefits depend upon age at retirement benefits and number of years of credited service. Disability retirement benefits are available to members for occupational and nonoccupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became affective on January 1, 1952. ERS issued a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE D - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS -
Continued

b. *Funding policy*

The Act 447, as amended, is the authority under which obligation to contribute to the Plan by the Plan members, employer's and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and the Municipality is required to contribute 9.275% of gross salary. The Municipality's actual contribution for the year ended June 30, 2000 was \$159,501, which is equal to the required contribution.

12. *Municipal Solid Waste Landfill Closure and Postclosure Care Costs*

The Municipality discontinued its landfill operations and ceased to accept solid waste in April 1994. State and Federal Laws and Regulations require the Municipality to perform certain closure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure. The closure care procedures were assumed and completed by the Municipality. The postclosure care costs has not been determined and accounted as required by generally accepted accounting principles as of June 30, 2000.

NOTE E - CONTINGENCIES

1. *Federal and State Grants*

As described in the accompanying Schedule of Findings and Questioned Costs, costs in the amount of \$548,751 are questioned on Community Development Block Grant – State's Program. The ultimate outcome on this matter is undeterminable.

Projects financed by federal and state grants are subject to audit in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE E - CONTINGENCIES - Continued

2. *Litigations*

The Municipality's attorney reports that several lawsuits have been filed against the Municipality of Rincón but in his opinion, based upon the facts of these lawsuits and the amount of damages claimed in the cases, the potential liabilities will not impair the Municipality's financial position.

NOTE F - FUND BALANCE - CAPITAL PROJECT

The capital project fund disclosed a deficit on fund balance caused primarily to a deficit balance of certain state grants, which were not totally covered by additional grant funds as of June 30, 2000.

NOTE G - SUBSEQUENT EVENTS

1. On August 2000 the Municipality issued a \$910,000 operational loan through the Governmental Development Bank for Puerto Rico to refinance certain short-term and long-term liabilities. As of June 30, 2000 short-term liabilities expected to be refinanced were reclassified as long-term liabilities and recorded in the general long-term debt account group since the Municipality has demonstrated its intention and its ability to consummate the financing agreement, which does not expire within one year from the date of the combined balance sheet.
2. On July 6, 2000 the Municipality was notified of a legal case settlement in the amount of \$352,958. The total amount was paid by the Municipality in January, 2001.
3. As determined by the Municipal Revenue Collection Center (CRIM) the actual amount of property tax revenues and income derived from other subsidies from the actual government of Puerto Rico is less than the advanced estimated revenues by \$1,200,455 as of June 30, 2000. This amount covered fiscal years 1997-1998 to 1999-2000. The Municipality intends to refinance this debt on a long-term basis under the provision of Law No. 42 of January 26, 2000, which was created to permit the CRIM to recover the accumulated

Municipality of Rincón

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2000

NOTE G - SUBSEQUENT EVENTS - Continued

debt for this concept from the Municipalities of Puerto Rico. The refinancing will be done by a special loan to be repaid from .48% of the net increase of subsidy provided by the Central Government to the Municipality under the referred law. The financing agreement was authorized by the Municipal Council of Rincón on Resolution No. 13 of January 19, 2001.

SUPPLEMENTAL INFORMATION

Municipality of Rincón

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2000

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number (Note B)	Pass-Through Grantor's Number (Note C)	Expenditures (Note A)	Questioned Costs
<u>U.S. Department of H.U.D.</u>				
Major Program:				
Passed through the Office of Commissioner of Municipal Affairs:				
Community Development Block Grant - State's Program:	14.228	AB-53 FD-53	1,098,943	\$ 548,751
Nonmajor Program:				
Direct Program:				
Section 8 Rental Certificates Program	14.857	N/A	130,181	-
			1,229,124	548,751
<u>U.S. Department of Agriculture</u>				
Nonmajor Programs:				
Passed through the State Department of Education:				
Child and Adult Care Food Program	10.558	N/AV	6,707	-
<u>Federal Emergency Management Agency</u>				
Major Program:				
Passed through the Puerto Rico Governor Office: (Governor's Authorized Representative-GAR)				
Public Assistance Grants	83.544	DR-PR-1247	106,331	-
<u>U.S. Department of Justice</u>				
Nonmajor Programs:				
Direct Programs:				
Public Safety Partnership and Community Policing Grants-COPS	16.710	N/A	62,724	-
Local Law Enforcement Block Grant	16.592	N/A	88,601	-
			151,325	-
<u>U.S. Department of Health and Human Services</u>				
Nonmajor Program:				
Passed through the Puerto Rico Governor Office (Oficina de Servicios Al Niño v Desarrollo Cultural-SENDEC):				
Child Care and Development Block Grant	93.575	N/AV	97,566	-
Total federal awards expenditures			\$ 1,590,993	\$ 548,751

The accompanying notes are an integral part of this schedule.

Municipality of Rincón

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Government and Nonprofit Organizations.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C - PASS-THROUGH GRANTOR'S NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

Municipality of Rincón

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2000

NOTE D - RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Description</u>	<u>Special Revenue Fund</u>
14.228	\$ 1,098,943
14.857	130,181
10.558	6,707
83.544	106,331
16.710	62,724
16.572	88,601
93.575	97,506
	<hr/>
Total federal awards expenditures:	1,590,993
Total state funds awards expenditures and other nonfederal expenditures:	2,527,057
	<hr/>
Total expenditures, general purpose financial statements	<u>\$ 4,118,050</u>

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

Mayor and Municipal Council
Municipality of Rincón
Rincón, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Rincón, as of and for the year ended June 30, 2000, and have issued our report thereon dated May 31, 2001 which is qualified because we were unable to form an opinion regarding due from (to) other funds between general, special revenue and capital project funds; fund balance in the general fund; and general fixed assets account group because of the inadequacy of accounting records; we were unable to test accrued vacations and sick leave since an adequate estimate has not been determined by the Municipality; and for the effects of not determining a reasonable estimate of the solid waste landfill postclosure care costs. 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 Municipality of Rincón's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are described in the accompanying Schedule of Findings and Questioned Costs as item 2000 II-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Rincón's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable

conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Rincón's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000 II-1 and 2000 II-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 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 items 2000 II-1 and 2000 II-3 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of Municipality of Rincón on a separate letter dated May 31, 2001.

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



Mayagüez, Puerto Rico
May 31, 2001

Rodriguez, Rivera & Toro LLP

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

Mayor and Municipal Council
Municipality of Rincón
Rincón, Puerto Rico

Compliance

We have audited the compliance of Municipality of Rincón 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, 2000. Municipality of Rincón'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 Rincón's management. Our responsibility is to express an opinion on Municipality of Rincón's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted 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 Rincón'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 Rincón's compliance with those requirements.

As described in Item 2000 III-1 in the accompanying Schedule of Findings and Questioned Costs the Municipality of Rincón did not comply with the requirement regarding allowable costs/costs principles of compliance requirements applicable to Community Development Block Grant – State’s Program. Compliance with such requirement is necessary, in our opinion, for the Municipality of Rincón compliance to that program.

In our opinion, except for the non compliance described in the preceding paragraphs, the Municipality of Rincón 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, 2000.

Internal Control Over Compliance

The management of the Municipality of Rincón is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality of Rincón’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, on our judgment could adversely affect the Municipality of Rincón’s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2000 III-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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 reportable condition described in item 2000 III-1 is a material weakness. We also noted other matters involving the internal control over compliance that we have reported to the management of Municipality of Rincón in a separate letter dated May 31, 2001.

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



Rodriguez, Rivera & Toro LLP

Mayagüez, Puerto Rico
May 31, 2001

Municipality of Rincón

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2000

I. Summary of audit results:

Part I - Financial Statements

- | | | |
|---|--|---|
| 1. Type of audit report: | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 2. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Reportable conditions reported as a material weakness: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 4. Material noncompliance disclosed: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

Part II - Federal Awards

- | | | |
|---|--|---|
| 1. Reportable conditions reported: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Reportable conditions reported as a material weakness: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Type of report on compliance for major programs: | <input type="checkbox"/> Unqualified opinion | <input checked="" type="checkbox"/> Qualified opinion |
| | <input type="checkbox"/> Adverse opinion | <input type="checkbox"/> Disclaimer of opinion |
| 4. Audit findings required to be reported under Section 510(a) of Circular A - 133: | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

- | | | |
|---|---|--|
| 5. Major programs: | | Name of Federal Program or Cluster |
| | <u>CFDA Number(s)</u> | |
| | 14.228 | Community Development |
| | 83.544 | Block Grant - State's Program |
| | | Public Assistance Grant |
| 6. Dollar threshold used to distinguish Type A and Type B programs: | <input checked="" type="checkbox"/> \$300,000 | <input type="checkbox"/> \$3,000,000 |
| | <input type="checkbox"/> \$30,000,000 | |
| 7. Low-risk auditee: | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Municipality of Rincón

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

Year ended June 30, 2000

II. Findings related to the financial statements reported in accordance with GAGAS:

Reference number 2000 II-1

Area: Property, plant and equipment

Condition and criteria:	<p>The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories. Our tests disclosed the following:</p> <ol style="list-style-type: none">a. The computerized subsidiary records maintained by the Municipality do not reconcile with the amounts reported in the general purpose financial statements by a significant amount.b. There are no adequate accounting records to account for constructions in progress.c. A physical inventory of fixed assets has not been performed and reconciled with perpetual records.
Cause and effect:	<p>No proper controls and procedures over fixed assets inventories. Fixed assets amounts presented in the general purpose financial statements can not be adequately supported.</p>
Recommendation:	<p>A complete review of the fixed assets area should be done including an adequate fixed assets physical inventory, a reconciliation of subsidiary records with the amounts reported in the general purpose financial statements and establishment of controls to assure the completeness and valuation of fixed assets.</p>

Municipality of Rincón

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

Year ended June 30, 2000

II. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Area: Budget

Reference number 2000 II-2

Condition and criteria:

As required by the Autonomous Municipal Law of 1981, as amended, the Municipality should maintain adequate procedures to avoid the excess of expenditures over appropriations in the general fund budget. Our tests over the budget and costs control procedures disclosed the following:

- a. There are several instances of excess of expenditures over appropriations in the general fund due to charges for salaries, fringe benefits, payroll taxes and utilities.
- b. The general purpose financial statements disclosed that the fiscal period 1999-2000 results in an operational budgetary deficit of (\$402,129) and a cumulative fund balance deficit (GAAP) of (\$1,357,238).
- c. In one case of a statutory obligation related to liquidation of a prior year debt to the Municipal Revenue Collection Center (CRIM), budget amount was transferred on which no surplus exists or was certified, as required by Article 7.008(b) of the Autonomous Municipal Law of 1981, as amended.

Cause and effect:

Inadequate controls and procedures over budgetary operations which caused a non compliance with laws and regulations.

Municipality of Rincón

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

Year ended June 30, 2000

III. Findings related to the financial statements reported in accordance with GAGAS -
Continued:

Area: Budget

Reference number: 2000 II-2

Recommendation: Procedures should be established to assure compliance with budgetary requirements as stated by the Municipal Law. The Municipality's general fund budget should include a credit to amortize the operational deficit as required by the Municipal Law.

Area: Accounting records and reports:

Reference number: 2000 II-3

Condition and criteria: Our audit revealed the Municipality's failure to properly implement established internal controls and procedures to maintain complete, accurate and reliable set of accounting records and reports.

- a. The Municipality failed to maintain an adequate general ledger record to post and register its financial transactions. The Municipality has not established a complete set of manual accounting records properly balanced and has not established procedures to reconcile with the computerized accounting system. The general purpose financial statements has been prepared from other alternative sources, including manual subsidiary records and reports.

Municipality of Rincón

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued

Year ended June 30, 2000

II. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Area: Accounting records and reports: (Continued)

Reference number: 2000 II-3

- b. There are no adequate controls over costs charged to state grants. Several state grants accounts disclosed a deficit or inappropriate balances due excess costs charged, interfund loans or advance payments not reimbursed. A complete review of internal controls over state grants budgetary transactions is recommended to maintain accurate balances and comply with laws and regulations.
- c. There are no adequate controls over transactions recording on the Form 4(a) Cash Report. As a result, several special accounts disclosed inaccurate and erroneous balances. A complete review of Form 4(a) Cash Report balances is recommended to correct and report appropriate cumulative balances.

Cause and effect:

Failure to properly implement established internal controls and procedures might prevent management from managing cash in an effective manner.

Recommendation:

A complete and immediate review of controls and procedures over financial records and reports should be performed by the Municipality in order to provide management and other users with a complete, accurate and reliable set of accounting records and reports. Procedures should include, at least, analysis of account balances, reconciliation with supporting documentation and subsidiary ledgers, reconciliation between centralized records and federal funds records, verification of accounts with information provided by other Commonwealth governmental agencies, and reconciliation of fixed assets records.

Municipality of Rincón
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2000

III. Findings and questioned costs for federal awards:

Reference Number	Program	Regulations/ Requirements	Population Size		Items Tested		Items not in compliance		Findings/Non Compliance	Questioned Costs
			Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount		
2000 III-1	US Department of HUD Community Development Block Grant – State's Program CFDA Number 14.228	Allowable cost/Cost principle	-	\$ 1,098,943	25	\$ 285,051	7	\$ 548,751	Condition and criteria: Our tests over compliance with allowable costs/costs principles requirement disclosed that in two disbursements related to one supplier the service contract was not submitted for examination by the Municipality. Since service contract was not submitted for examination, all disbursements related to this service are questioned. Total questioned costs amounts to \$548,571. Cause and effect: Municipality is not in compliance with applicable requirements. Recommendation: Procedures should be designed to assure that all services are contracted and evidence be properly file for examination by internal and external parties.	\$ 548,751
Total questioned costs										<u>\$ 548,751</u>

Municipality of Rincón

SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS

Year ended June 30, 2000

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding Number	Condition	Status
1999	99 II-1	The Municipality has not established adequate controls and procedures to assure the completeness, existence and valuation of fixed assets inventories.	Finding remains uncleared. See current year finding No. 2000 II-1 in the accompanying Schedule of Findings and Questioned Costs.
1999	99 II-2	a. Several instances of excess of expenditures over appropriations in the general fund. b. Operational budgetary deficit and cumulative fund balance deficit (GAAP).	Finding remains uncleared. See current year finding No. 2000 II-2 in the accompanying Schedule of Findings and Questioned Costs.
1999	99 II-3	Failure to properly implement established internal controls and procedures to maintain complete, accurate and reliable set of accounting records and reports.	Finding remains uncleared. See current year finding No. 2000 II-3 in the accompanying Schedule of Findings and Questioned Costs.
1998	98 II-1	The Municipality has not established adequate internal controls and procedures to assure the completeness, existence and valuation, of the fixed assets inventories.	Finding remains uncleared. See current year finding No. 2000 II-1 in the accompanying Schedule of Findings and Questioned Costs.

Municipality of Rincón

SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS

Year ended June 30, 2000

I. Findings related to the financial statements reported in accordance with GAGAS:

Fiscal year ended June 30,	Finding Number	Condition	Status
1998	98 II-2	<ul style="list-style-type: none"> a. There are several instances of excess of expenditures fund over appropriations in the general fund. b. An Operational budgetary deficit of (\$280,555) and a cumulative deficit. c. There are no adequate controls over costs charged to state grant. 	<p>Finding remains uncleared. See current year finding No. 2000 II-2 in the accompanying Schedule of Findings and Questioned Costs.</p>
1997	97 II-1	<p>The Municipality has not properly implemented established internal controls and procedures to maintain an adequate and complete set of accounting records and reports. The municipality failed to maintain an adequate general ledger record to post and register its financial transactions.</p>	<p>Finding remains uncleared. See current year finding No. 2000 II-3 in the accompanying Schedule of Findings and Questioned Costs.</p>

Municipality of Rincón

SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS

Year ended June 30, 2000

I. Findings related to the financial statements reported in accordance with GAGAS - Continued:

Fiscal year ended June 30,	Finding Number	Condition	Status
1997	97-II-2	<p>During our examination of internal controls and procedures over the bid process we noted that there was an awarded bid for a construction project of \$3,082,000 where the appropriated budget was \$2,500,000 to cover the awarded bid costs. As stated on the bid board minutes, the bid was awarded based on the recommendation of the Recreational Development Company of Puerto Rico (a state governmental agency). This recommendation authorized the Municipality to award the bid for the budget amount the Municipality has available with an agreement to obtain the total additional funds within six months.</p> <p>The Municipality decided to contract the construction project in three stages based on availability of funds. The total amount of the three stages was \$2,715,000, which represents \$318,000 above the original estimated construction costs. As stated in communications between the contractor and the Municipality, the excess costs are based on changes in costs for the additional time incurred and extended overhead cost.</p>	Finding remains uncleared.

Municipality of Rincón

SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS

Year ended June 30, 2000

II. Findings and questioned costs for federal awards:

<u>Fiscal year ended June 30,</u>	<u>Program</u>	<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
1999	Federal Emergency Management Agency – Public Assistance Grants CFDA Number 83.544	99 III-1	<ul style="list-style-type: none"> a. In two instances the disbursements were made and no Damaged Survey Report (DSR) has been approved by FEMA. b. In seven instances the disbursement's concept is not in accordance with approved cost category disclosed on DSR. 	Finding remains uncleared. Questioned Costs totaled \$17,730.
1999	Federal Emergency Management Agency – Public Assistance Grants CFDA Number 83.544	99 III-2	The Municipality has not complied in one case with suspension and debarment certification.	Finding remains uncleared.

Municipality of Rincón

SUMMARY SCHEDULE OF PRIOR AUDITS FINDINGS

Year ended June 30, 2000

II. Findings and questioned costs for federal awards (Continued):

<u>Fiscal year ended June 30,</u>	<u>Area</u>	<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
1997	U.S. Department of HUD: Community Development Block Grant – State’s Program CFDA Number 14.228	97 III-1	During our internal controls tests over the federal funds we found that grantee has not established procedures to comply with suspension and debarment requirement.	Finding remains uncleared.

**Municipality of Rincón
Finding and Corrective Actions
Year ended June 30, 2000**

**Area: Property, plant & equipment
Reference number: 2000 II-1**

Recommendation:

In order to establish and assure the completeness and valuation of fixed assets the following corrective actions should be taken under the new administration of the Municipality of Rincón.

Physical inventory of the fixed assets are been taken in order to assure that the physical inventory will be recorded totally.

Corrective Action:

- a. In order to reconciled the EDP System with the manual system we have determined that a new regulation showed be present to the "Municipality Assembly" to reconsider the determination of the value of the property or equipment that should be register on the fixed asset module.
- b. A procedure will be establish in order to determine the constructions in progress and recorded in the EDP Accounting System.
- c. In order to reconciled both systems a write off of the amounts under \$25.00 on the EDP System of OCAM will be done by the Accounting Department. This will reconciled perpetual records.

**Municipality of Rincón
Finding and Corrective Actions, Continued
Year ended June 30, 2000**

Area: Budget
Reference number: 2000 II-2

Recommendation:

In order to avoid non compliance with laws and regulations on the budgetary operations the following action have been taken.

Corrective Action:

- a. The current budget have been prepared considering and estimate over the past experience of expenditures and revenues.
- b. Even "through" that we haven't recognized the real deficit in our budget we are working with the collection department in order to maximize our collections to amortize this deficit.
- c. In the statutory obligation related to a prior liquidation debt of the Municipal Revenue Collection Center we have considered this debt as part of the current budget.

**Municipality of Rincón
Finding and Corrective Actions, Continued
Year ended June 30, 2000**

Area: Accounting Record & Report

Reference number: 2000 II-3

Recommendation:

To establish internal controls and procedures to maintain complete, accurate and reliable accounting records and report we have consider the following actions:

Corrective Action:

- a. Continuous supervision of the accounting cycle in order to consolidate the accounting modules. We are evaluating the possibilities of contract a professional services to re-structure the Accounting Department and to fully record the accounting data in our EDP System.
- b. So avoid deficit on state grants accounts we have considered the expenses in our current budget based on the experience of past year behave.
- c. To establish adequate controls over the transactions recorded on the cash report we have involved the audit unit to supervise this transactions and to implement new controls and procedures.

Municipality of Rincón
Finding and Corrective Actions, Continued
Year ended June 30, 2000

Federal Award Program
Reference: 2000 III-1

Recommendation:

Procedures should be designed to assure that all services are contracted and evidence be properly file for examination by internal and external parties.

Corrective Action:

a. Establish adequate controls and procedures to prevent this situation do not occurred again. We are doing the require procedure to try to find the contract from the suppliers and "Oficina del Contralor de PR".



Nilsa Soto Rosado
Director of Finance

