

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE JUNCOS**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

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RECIBIDO  
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUNCOS**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2002**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF JUNCOS

YEAR ENDED JUNE 30, 2002

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF JUNCOS**

**YEAR ENDED JUNE 30, 2002**

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
the Municipal Legislature  
Municipality of Juncos  
Juncos, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Juncos**, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following 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 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in **Note 13**, at June 30, 2002, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs. Governmental Accounting Standard Board Statement 18 requires, among other things, that the Municipality to estimate and recognize the Municipal Solid Waste Landfill Closure and Post closure Care Costs. The general-purpose financial statements do not include a provision for landfill closure and post closure costs in the general long-term debt account group as required by accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

As described in Note 8, the **Municipality of Juncos** did not maintain complete and adequate records of its general fixed assets. The general-purpose financial statements referred to above do not include the general fixed assets account group that should be included in order to conform to accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group and the transactions disclosed in the third paragraph related to landfill closure and post-closure costs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Juncos** as of June 30, 2002, 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 November 27, 2002 on our consideration of the Municipality's internal control over financial reporting and on 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 Juncos**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. The 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 presented, in all material respects, in relation to the general purpose financial statements taken as a whole.



LOPEZ- VEGA, CPA, PSC

San Juan, Puerto Rico  
November 27, 2002

Stamp No. 1853995 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED BALANCE SHEET  
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUP  
JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES				ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	General Long-term Debt	
<b>ASSETS AND OTHER DEBITS</b>						
Cash and cash equivalents	\$4,470,610	\$1,769,254		\$1,166,088		\$7,405,952
Cash with fiscal agent	4,909	736,372	\$1,230,281	2,357,100		4,328,662
Intergovernmental receivable		341,035				341,035
Federal grants receivable		793,236		357,814		1,151,050
Due from other funds	2,974,049	52,950				3,026,999
Landfill users receivable	644,961					644,961
Other accounts receivable	20,797					20,797
Amount available in Debt Service Fund					\$1,230,281	1,230,281
Amount to be provided for retirement of general long-term debt					15,993,998	15,993,998
<b>Total assets and other debits</b>	<b><u>\$8,115,326</u></b>	<b><u>\$3,692,847</u></b>	<b><u>\$1,230,281</u></b>	<b><u>\$3,881,002</u></b>	<b><u>\$17,224,279</u></b>	<b><u>\$34,143,735</u></b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$302,036	\$120,239		\$25,583		\$447,858
Due to other funds	52,950	1,412,186		1,561,863		3,026,999
Due to other governmental entities	306,052				\$1,209,930	1,515,982
Deferred municipal license tax revenues	2,911,241					2,911,241
Deferred federal grant revenues		1,233,413		14,815		1,248,228
General obligation bonds					4,426,137	4,426,137
Notes payable					5,001,284	5,001,284
Claims and judgments					5,763,780	5,763,780
Accrued compensated absences					823,148	823,148
<b>Total liabilities</b>	<b><u>3,572,279</u></b>	<b><u>2,765,838</u></b>		<b><u>1,602,261</u></b>	<b><u>17,224,279</u></b>	<b><u>25,164,657</u></b>
<b>Fund equity:</b>						
<b>Fund balances:</b>						
Reserved for encumbrances	491,285					491,285
Reserved for debt service			\$1,230,281			1,230,281
<b>Unreserved:</b>						
Designated for specific fund purposes		927,009		2,278,741		3,205,750
Undesignated	4,051,762					4,051,762
<b>Total fund equity</b>	<b><u>4,543,047</u></b>	<b><u>927,009</u></b>	<b><u>1,230,281</u></b>	<b><u>2,278,741</u></b>		<b><u>8,979,078</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$8,115,326</u></b>	<b><u>\$3,692,847</u></b>	<b><u>\$1,230,281</u></b>	<b><u>\$3,881,002</u></b>	<b><u>\$17,224,279</u></b>	<b><u>\$34,143,735</u></b>

See accompanying notes to general purpose financial statements.

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

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	General	Special Revenue	Debt Service	Capital Projects	
<b>REVENUES</b>					
Property taxes	\$4,063,534		\$696,240		\$4,759,774
Municipal license taxes	2,168,105				2,168,105
Licenses and permits	383,220				383,220
Intergovernmental	4,038,480	\$1,380,585		\$643,937	6,063,002
Rent of property	41,996				41,996
Fines and penalties	5,712				5,712
Interest	349,731				349,731
Federal grants		3,348,300		162,253	3,510,553
Users fees on landfill facilities	3,260,811				3,260,811
Miscellaneous	156,022	146,113			302,135
<b>Total revenues</b>	<b>14,467,611</b>	<b>4,874,998</b>	<b>696,240</b>	<b>806,190</b>	<b>20,845,039</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Mayor and Municipal Assembly	1,323,659				1,323,659
General government	4,884,294	269,329			5,153,623
Public safety	384,097	572,049			956,146
Public works	2,485,090	905,318		536,156	3,926,564
Public health and sanitation	1,112,104	489,435			1,601,539
Welfare	10,049	1,192,277			1,202,326
Economic development	79,021	513,501			592,522
Recreation	694,901	112,067			806,968
Human services	125,499				125,499
Principal retirement			413,252		413,252
Interest			215,746	47,841	263,587
<b>Capital outlays</b>	<b>323,144</b>	<b>2,008,168</b>		<b>3,270,473</b>	<b>5,601,785</b>
<b>Total expenditures</b>	<b>11,421,858</b>	<b>6,062,144</b>	<b>628,998</b>	<b>3,854,470</b>	<b>21,967,470</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,045,753</b>	<b>(1,187,146)</b>	<b>67,242</b>	<b>(3,048,280)</b>	<b>(1,122,431)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers to other funds	(1,378,333)	(104,295)	(1,558,553)		(3,041,181)
Operating transfers from other funds	104,295	1,378,292	135,583	1,423,011	3,041,181
Proceeds from bond issuance		510,000		2,681,744	3,191,744
<b>Total other financing sources (uses)</b>	<b>(1,274,038)</b>	<b>1,783,997</b>	<b>(1,422,970)</b>	<b>4,104,755</b>	<b>3,191,744</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)</b>	<b>1,771,715</b>	<b>596,851</b>	<b>(1,355,728)</b>	<b>1,056,475</b>	<b>2,069,313</b>
<b>Fund balances, beginning as restated</b>	<b>2,771,332</b>	<b>330,158</b>	<b>2,586,009</b>	<b>1,222,266</b>	<b>6,909,765</b>
<b>Fund balances, ending</b>	<b>\$4,543,047</b>	<b>\$927,009</b>	<b>\$1,230,281</b>	<b>\$2,278,741</b>	<b>\$8,979,078</b>

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2002**

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Property taxes	\$2,139,974	\$2,820,784	\$680,810	\$619,009	\$696,240	\$77,231
Municipal license taxes	2,215,000	2,168,105	(46,895)			
Licenses and permits	708,500	383,220	(325,280)			
Intergovernmental	4,092,069	4,038,480	(53,589)			
Rent of property	82,500	41,995	(40,505)			
Fines and penalties	10,000	5,712	(4,288)			
Interest	122,000	349,731	227,731			
Users fee on landfill facilities	1,800,000	2,792,915	992,915			
Miscellaneous	65,000	156,022	91,022			
Total revenues before carryover	<u>11,235,043</u>	<u>12,756,964</u>	<u>1,521,921</u>	<u>619,009</u>	<u>696,240</u>	<u>77,231</u>
Budget carryover (1)	697,634					
Total revenues	<u>11,932,677</u>	<u>12,756,964</u>	<u>824,287</u>	<u>619,009</u>	<u>696,240</u>	<u>77,231</u>
<b>EXPENDITURES AND ENCUMBRANCES:</b>						
<b>Current:</b>						
Mayor and Municipal Assembly	1,438,975	1,415,029	23,946			
General government	5,209,165	4,948,582	260,583			
Public safety	411,544	388,752	22,792			
Public works	2,153,888	2,114,220	39,668			
Public health and sanitation	1,218,158	1,175,957	42,201			
Welfare	12,745	12,662	83			
Economic Development	79,795	79,303	492			
Recreation	707,213	698,591	8,622			
Human services	132,578	131,121	1,457			
Principal retirement				175,750	413,252	(237,502)
Interest				163,367	215,746	(52,379)
<b>Capital outlays</b>	<u>427,665</u>	<u>360,513</u>	<u>67,152</u>			
Total expenditures and encumbrances	<u>11,791,726</u>	<u>11,324,730</u>	<u>466,996</u>	<u>339,117</u>	<u>628,998</u>	<u>(289,881)</u>
<b>Excess (deficiency) of revenues over (under) expenditures and encumbrances</b>	140,951	1,432,234	1,291,283	279,892	67,242	(212,650)
<b>OTHER FINANCING USES:</b>						
Operating transfer from other fund	104,295	104,295	-	135,582	135,582	-
Operating transfer to other fund	(245,246)	(135,583)	(109,663)	(415,474)	(1,558,552)	1,143,078
<b>Excess (deficiency) of revenues over (under) expenditures, encumbrances and other financing uses</b>	<u>-</u>	<u>1,400,946</u>	<u>1,181,620</u>	<u>-</u>	<u>(1,355,728)</u>	<u>930,428</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:</b>						
Net change in encumbrances		115,094				
GAAP adjustments to revenues		1,710,645				
GAAP adjustments to expenditures		(212,220)				
Operating transfer to other fund		(1,242,750)				
<b>Fund balances beginning, as restated</b>		<u>2,771,332</u>		<u>2,586,009</u>		
<b>Fund balances, ending</b>		<u>\$4,543,047</u>		<u>\$1,230,281</u>		

(1) Budget include fund balances carried over from prior years.

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

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

The **Municipality of Juncos** (the Municipality) was established in 1797. The Municipality's governmental system consists of an executive and a legislative body. A Mayor and sixteen members Municipal Assembly who are elected every four years through the Puerto Rico general elections govern it.

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

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

**A. Financial reporting entity:**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

**Governmental fund types:**

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

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

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

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

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

**Account groups:**

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

**General Fixed Assets** - is used to account for all fixed assets of the Municipality (see Note 8)

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**C. Basis of accounting:**

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

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

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**D. Reservations of fund balance:**

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances - Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service - Represents net assets available to finance future debt service payments.

**E. Budgetary data:**

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

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**E. Budgetary data (Continued):**

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

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

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

**F. Inventories:**

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

**G. Property and equipment:**

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant. As indicated in Note 8, the information to account for these general fixed assets is not available.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**H. Cash and cash equivalents:**

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2002 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

**I. Interfund transactions:**

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

Transfer of Expenditures (Reimbursements) - Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**J. Compensated absences:**

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2002.

**K. Insurance:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED):**

**L. Total columns (memorandum only):**

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

**M. Use of estimates in the preparation of general purpose financial statements:**

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**N. Claims and judgments:**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**2. DUE TO OTHER GOVERNMENTAL ENTITIES:**

The amounts due to other governmental entities in the General Fund include the following:

Puerto Rico Electric Power Authority	\$ 88,577
Retirement System Administration	64,028
Puerto Rico Aqueduct and Sewer Authority	9,136
General Services Administration	9,511
Internal Revenue Service	44,260
Department of Labor	6,839
Department of Treasury	83,701
	<hr/>
Total	\$ 306,052

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):**

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2002. The following is the balance of these accounts:

Department of Treasury (Property tax advances)	\$ 538,459
Puerto Rico Electric Power Authority	354,608
Department of Labor	149,722
Municipal Revenue Collection Center (Property tax advances)	<u>167,141</u>
Total	<u>\$ 1,209,930</u>

**3. PROPERTY TAXES:**

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.08% for real property and 6.08% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.25% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**3. PROPERTY TAXES (CONTINUED):**

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were in excess of actual advances by \$499,644 according to CRIM final liquidation. Such amount was not included as intergovernmental receivable in the General Fund. Also, the Municipality has a \$705,600 property tax advance debt balance from prior years (\$167,141 owed to CRIM, and \$538,459 owed to Treasury Department); such balance was included as Due to other governmental entities in the General Long Term Debt Account Group because it will not be funded with available expendable financial resources at June 30, 2002.

**4. MUNICIPAL LICENSE TAXES:**

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

The tax rates are as follows:

Financial institutions	1.50%
Savings and loans associations	1.25%
Other organizations	0.45%

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

**5. INTERGOVERNMENTAL:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**5. INTERGOVERNMENTAL (CONTINUED):**

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

**6. CASH AND CASH EQUIVALENTS:**

Cash in bank accounts	\$ 1,760,986
Certificates of deposit (90 days or less)	<u>5,644,966</u>
Total cash and cash equivalents	<u>\$ 7,405,952</u>

**7. DEBT SERVICE FUND:**

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

**8. GENERAL FIXED ASSETS:**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**9. GENERAL OBLIGATION BONDS:**

The general obligation bonds transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$ 2,155,349
Debt issued	2,375,290
Principal retirements	(104,502)
Adjustments and/or Reclassifications	
Balance at June 30, 2002	\$ 4,426,137

General obligation bonds at June 30, 2002 are as follows:

Type of bonds	Maturity date	Original Amount	Range of Interest Rates	Balance at June 30, 2002
1984 Series	1-1-08	700,000	5.00%	\$ 258,000
1993 Series	1-1-17	264,000	4.50%	206,000
1994 Series	1-1-18	650,000	5.25%	562,000
1996 Series	1-1-21	525,000	4.50%	480,213
1996 Series	1-1-21	551,000	4.50%	518,000
	Bond proceeds in process of disbursement			
1996 Series		520,000	4.50%	141,924
2001 Series	7-1-26	305,000	5.00% - 6.75%	305,000
2001 Series	7-1-26	1,955,000	5.00% - 6.75%	1,955,000
Total general obligation bonds				\$ 4,426,137

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2002, are as follows:

Year ended June 30	Total
2003	\$ 143,000
2004	152,000
2005	157,000
2006	167,000
2007	173,000
Thereafter	3,634,137
Total	\$ 4,426,137

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**10. NOTES PAYABLE:**

The notes payable transactions for the year ended June 30, 2002 were as follows:

Balance at July 1, 2001	\$4,378,290
Debt issued	931,744
Payments during the current year	(308,750)
Adjustments\Reclassifications	
Balance at June 30, 2002	<u>\$5,001,284</u>

Notes payable at June 30, 2002 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2002
1993 Series	4-1-13	\$ 1,680,000	4.37% - 8.00%	\$ 1,168,750
2001 Series	7-1-05	1,365,000	6.13% - 8.00%	1,130,000
2002 Series	Note proceeds in process of disbursement	510,000	Not-available	510,000
Section 108 Loan	Note proceeds in process of disbursement	4,220,000	6.24% - 6.49%	2,192,534
Total notes payable				<u>\$5,001,284</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2002, are as follows:

Year ended June 30	Total
2003	\$ 388,000
2004	414,750
2005	447,750
2006	476,750
2007	169,750
Thereafter	3,104,284
Total	<u>\$ 5,001,284</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN:**

**Defined Benefit Pension Plan**

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
30 or more	54 or less	65% of the average of the three years of highest salary during the employees' service period.
30 or more	55 or more	75% of the average of the three of highest salary during the employees' service period.

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN (CONTINUED)**

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

<u>Years of Service</u>	<u>Participant Age</u>	<u>Pension Benefits</u>
25 or more	Between 55 and 64	Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees.
10 or more	65 or more	Computed at the rate of 1-1/2% of their average compensation for each year-credited service.

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

**Defined Contribution Plan**

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN (CONTINUED):**

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

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

Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2002, recorded as pension expenditures was approximately \$ 296,035. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2002.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- \* The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- \* Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**11. RETIREMENT PLAN (CONTINUED):**

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

**12. INTERFUND TRANSACTIONS:**

**Due from/to other funds**

Interfund receivables and payables represent temporary loans between the funds.

**Operating transfers**

Operating transfers represent transfers between funds to specific purposes designated by the management.

**13. LANDFILL OBLIGATIONS:**

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. At June 30, 2002, the Municipality had not performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not updated the estimated obligation for landfill closure and post closure care costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**14. COMMITMENTS AND CONTINGENCIES:**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in several legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$12,000 in the general long-term debt account group for final unfavorable judgments.

Also, the Municipality and other responsible parties are defendants in a lawsuit presented by the Federal Environmental Protection Agency (EPA) in order to recover EPA's past cost plus interest, associated with the overseeing procedures applied by EPA on Juncos Landfill Superfund Site. EPA estimates the amount of these cost plus interest at approximately \$4,862,000 that is included in the general long-term debt account group. EPA also has stated that it intends to seek monetary penalties against the responsible parties for failure to timely comply with EPA's remedial orders. The responsible parties, including the Municipality of Juncos, have informed EPA of their willingness to enter into negotiations regarding EPA's claims for past costs and penalties. In addition, the Municipality is a defendant in several legal proceedings, which are in the discovery stage. The majority of these claims are covered by insurance. As a result, the accompanying general purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

**C. Contingencies:**

The Municipality of Juncos has included in the General Fund a due from related to one Federal Program and one State Program. Exist the possibility that the General Fund did not collect such receivable.

This situation occurred due to the Municipality's General Fund paid the payroll and fringe benefits on behalf such Programs and did not request the reimbursement on a timely manner. The possible uncollected amount totalized \$605,533.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**15. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning Fund Balance for Debt Service Fund have been restated by a situation detected during the fiscal year that affect the Fund Equity section of this Governmental Fund, as follows:

<u>Description</u>	<u>Debt Service</u>
Beginning Fund Balance at July 1, 2001	\$ 2,312,110
Adjustment of Debt Service Fund fund balance related with CAE account final liquidations of prior fiscal years	<u>273,899</u>
Beginning Fund Balance at July 1, 2001, as restated	<u>\$ 2,586,009</u>

**16. SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS:**

On October 28, 2002 the Municipal Legislature approved a readjustment to the current year budget by \$2,771,332 from the prior year fund balance. This amount represents the total general fund balance of the prior year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Program: Nutrition Program for the Elderly	10.570		\$ 9,584
Direct Program: Community Facilities Loans and Grants	10.766		138,880
Direct Program: Water and Waste Disposal Loans and Grants	10.770		162,253
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	<u>95,079</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>405,796</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Program: Community Development Block Grants - Section 108 Loan Guarantees	14.248		373,857
Direct Program: Section 8 Housing Choice Vouchers	14.871		286,772
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Community Development Block Grants - State's Program	14.228	01-FD 00- FD 99-FD 98-FD 97-FD 95-FD	1,819,751
Pass-through the Commonwealth of Puerto Rico - Municipality of San Juan: Housing Opportunities for Persons with Aids	14.241		<u>83,354</u>
<b>Total U.S. Department of Housing and Urban Development:</b>			<u><b>2,563,734</b></u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Direct Program: Public Safety Partnership and Community Policing Grants	16.710		182,924
Pass-through the Commonwealth of Puerto Rico - Governor's Office (Youth Office): Juvenile Justice and Delinquency Prevention	16.540	00-JP-FX-0072	20,741
Pass-through the Commonwealth of Puerto Rico - Department of Justice: Local Law and Enforcement Block Grants	16.592	2000-LB-VX-1085	<u>45,527</u>
<b>Total U.S. Department of Justice</b>			<u><b>249,192</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Pass-through the Commonwealth of Puerto Rico - Highway and Transportation Authority: Federal Transit - Capital Improvement Grants	20.500	Not Available	50,891
Pass-through the Commonwealth of Puerto Rico - Transit Safety Commission: Safety Community Project Implementation - Incentive Grant	20.601	99-06-2	<u>30,431</u>
<b>Total U.S. Department of Transportation</b>			<u><b>81,322</b></u>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico - Emergency Management Agency: Emergency Management Performance Grants	83.552	Not Available	4,080
Pass-through the Commonwealth of Puerto Rico- Governor Authorized Representative (GAR): Public Assistance Grants	83.544	1247-DRPR 1136-DRPR	<u>39,470</u>
<b>Total U.S. Federal Emergency Management Agency</b>			<u><b>43,550</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico - Governors Office (Elderly Office): Special Programs for Aging- Title III, Part B - Grant for Supportive Services and Senior Centers	93.044	Not Available	128,105
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	<u>551,590</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>679,695</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><b>\$ 4,023,289</b></u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

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

**YEAR ENDED JUNE 30, 2002**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Juncos** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue and Capital Projects Funds in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 3,487,180	\$ 536,109	\$ 4,023,289
Non federal programs Expenditures	<u>2,574,964</u>	<u>3,318,361</u>	<u>5,893,325</u>
Total expenditures in the general purpose financial statements	<u>\$ 6,062,144</u>	<u>\$ 3,854,470</u>	<u>\$ 9,916,614</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Juncos  
Juncos, Puerto Rico**

We have audited the general purpose financial statements of the **Municipality of Juncos** as of and for the year ended June 30, 2002, and have issued our report thereon dated November 27, 2002, which was qualified because we been unable to audit the fixed assets of the general fixed assets account group. Also, at year end the Municipality's had not updated the study of the activities that need to be implemented at the Municipality's landfill to guarantee the compliance with applicable state and federal regulations, and had not estimated the obligation for landfill closure and post closure care costs as required by Governmental Accounting Standard Board Statement 18. Except as discussed in the preceding sentences, 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 Juncos'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 general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Juncos's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Juncos's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items **02-01** through **02-04**.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS (CONTINUED)***

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 reportable conditions that are also considered to be material weaknesses. However, we believe items **02-01** and **02-02** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Juncos** in a separate letter dated November 27, 2002.

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
November 27, 2002

Stamp No. 1853996 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Juncos`  
Juncos, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Juncos** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The **Municipality of Juncos's** major federal programs are identified in the summary of auditors' 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 the **Municipality of Juncos's** management. Our responsibility is to express an opinion on the **Municipality of Juncos'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Juncos's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Juncos's** compliance with those requirements.

In our opinion, the **Municipality of Juncos** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **02-05** through **02-18**.

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

Internal Control Over Compliance

The management of the **Municipality of Juncos** 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 Juncos's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Juncos's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **02-05** through **02-18**.

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 on 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 material weakness. However, of the reportable conditions described above, we consider items **02-05**, **02-06**, **02-11**, **02-13**, **02-15**, **02-17** and **02-18** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Juncos** in a separate letter dated March 27, 2003.



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

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

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 27, 2003

Stamp No. 1853997 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2002**

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

**Financial Statements**

Type of auditors' report issued:	<b>Qualified</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes <input checked="" type="checkbox"/>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported
Type of auditors' report issued on compliance for major programs:	<b>Unqualified</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <input checked="" type="checkbox"/>	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.248	Community Development Block Grant - Section 108 Loan Guarantees
14.228	Community Development Block Grants - State's Program
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	<b>\$ 300,000</b>
Auditee qualified as low-risk auditee?	Yes                      No <input checked="" type="checkbox"/>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II - Financial Statements Findings**

**Finding Reference**      **02-01**

**Requirement**            **Fixed\ Capital Assets and Expenditures - Subsidiary Ledger**

**Statement of Condition**    During our examination of Municipality's property records and reports we noted the following deficiencies: balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger; and Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger.

**Criteria**                    Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the federal regulations establish that a financial management system shall provide for effective control and accountability for all funds, property and other assets.

**Cause of Condition**        There is no internal control procedures implemented to assure the completeness of the property records and reports.

**Effect of Condition**        The Municipality is not in compliance with Chapter IX, Article 9.002 of the State Act Number 81 and with the federal regulations.

**Recommendation**         We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.

**Questioned Costs**         None

**Management Response**    The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section II - Financial Statements Findings

**Finding Reference** 02-02

**Requirement** Financial Reporting

**Statement of Condition** The Municipality did not include in its general-purpose financial statements an estimate of the obligation for landfill closure and post closure costs.

**Criteria** *GASB Statements No. 18* requires that the Municipality should estimate the closure and post closure cost of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.

**Cause of Condition** The Municipality did not perform a study of the estimated cost of the closure and post closure cost of its landfill facilities.

**Effect of Condition** The Municipality is not in compliance with the *GASB Statement No. 18* requirements.

**Recommendation** We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure. Also, we recommend that the Municipality should include in its general-purpose financial statement the landfill costs necessary to comply with the *GASB Statement No. 18*.

**Questioned Costs** None

**Management Response** The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II – Financial Statements Findings**

**Finding Reference**      **02-03**

**Requirement**            **Financial Reporting – Accounting Records**

**Statement of Condition** During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.

**Criteria**                    Chapter VIII, Article 8.010 of the State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.

**Cause of Condition**      The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.

**Effect of Condition**      The Municipality accounting system did not provide update and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.

**Recommendation**        We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

**Questioned Costs**        None

**Management Response** The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II - Financial Statements Findings**

**Finding Reference**      **02-04**

**Requirement**            **Payroll and Related Liabilities - Payroll Preparation and Timekeeping**

**Statement of Condition** We performed a payroll test and examined a sample of 60 personnel files, and the related payroll documents of these employees for the semi-monthly payroll ended June 30, 2002. The following will summarize the situations noted:

- a. One (1) employee file was not available for our examination.
- b. For four (4) employees we noted that the time assistance cards were not signed by the employees and by the supervisor of the employee.
- c. For one (1) employee we noted difference between the employee assistance cards and the employee accumulative vacations card.
- d. For five (5) employees the salary stated in the employee file did not agree with the salary included in the payroll for the period ended June 30, 2002.

**Criteria**                    The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18-(1) establish that the Municipality will prepare the payroll based on the employee files.

**Cause of Condition**      There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the exactitude of accumulative vacation and sickness balances.

**Effect of Condition**      The Municipality did not maintain an adequate control over the personnel files and the vacation and sick leave accumulation cards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section II - Financial Statements Findings**

**Finding Reference**      **02-04 (Continued)**

**Recommendation**      We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should discount from the accumulative vacation worksheet the vacation and sick days used by employees as detailed in the time assistance card.

**Questioned Costs**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-05</b>
<b>Program</b>	<b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Financial Administration - Standard for Financial Management System</b>
<b>Statement of Condition</b>	During our audit we noted that the Municipality did not maintain for the Community Development Block Grant - Section 108 Loan Guarantees Program a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. This situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (2).
<b>Recommendation</b>	We recommend the Municipality to implement controls and procedures in order to assure the accountability of all financial transactions.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	<b>02-06</b>
<b>Program</b>	<b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>
<b>Requirement</b>	<b>Financial Administration - Standard for Financial Management System</b>
<b>Statement of Condition</b>	During our audit we noted that the Municipality did not maintain, for the Child Care and Development Block Grant Program, a reliable set of accounting records that present the financial position of the program, the results of operations and changes in fund balance.
<b>Criteria</b>	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls and accounting records to assure the accountability of all Federal transactions in accordance with Federal regulations. This situation may cause the non-compliance with certain regulations like allowable costs or allowable activities.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (2).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2002

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

**Finding Reference**      **02-06 (Continued)**

**Recommendation**      We recommend that the Municipality should implement controls and procedures in order to assure the accountability of all financial transactions.

**Questioned Cost**      None.

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**        **02-07**

**Program**                    **Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs**

**Requirement**            **Allowable Cost – Cost Principles**

**Statement of Condition**   **During our disbursements test of the Community Development Block Grant – State’s Program we noted the following situations:**

- a. Twenty one (21) disbursement vouchers were not cancelled or marked as paid along the documents.
- b. One (1) disbursement voucher did not have all necessary approval signatures.
- c. One (1) disbursement voucher did not have evidence of the Purchase Order.
- d. Eighteen (18) disbursement vouchers did not have evidence of the Purchase Requisitions.
- e. Three (3) disbursement vouchers did not have evidence of the receiving report or the certification of the Municipality’s employee who receive the goods or services.
- f. On seven (7) disbursement vouchers the Purchase Order was issued after the receiving of goods or services.

**Criteria**                    **Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.**

**Cause of Condition**      **The Municipality did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-07 (Continued)</b>
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation, Subpart C, Section 85.20 (b) (6).
<b>Recommendation</b>	We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures should be obtained before the related payments are made.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-08</b>
<b>Program</b>	<b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Allowable Cost - Cost Principles</b>
<b>Statement of Condition</b>	<p>During our disbursements test of the Community Development Block Grants - Section 108 Loan Guarantees we noted the following situations:</p> <ul style="list-style-type: none"><li>a. Ten (10) disbursement vouchers were not cancelled or marked as paid along the document.</li><li>b. Five (5) disbursement vouchers did not contain all required approval signatures.</li><li>c. Ten (10) disbursement vouchers did not contain evidence of the Purchase Requisition.</li><li>d. One (1) disbursement voucher did not contain evidence of the invoice.</li><li>e. Two (2) disbursement vouchers did not contain evidence of the receiving report or the certification of the Municipality's employee who received the goods or services.</li><li>f. Two (2) cancelled checks were not available for our examination.</li><li>g. One (1) disbursement voucher did not have supporting documents attached.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-08 (Continued)</b>
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure that all disbursements made have all the necessary supporting documents and were realized for allowable costs.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (6), provisions regarding allowable cost.
<b>Recommendation</b>	We recommend that the Municipality should strength its procedures to assure that all disbursements vouchers contain all supporting documents and approval signatures should be obtained before the related payments are made.
<b>Questioned Cost</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-09</b>
<b>Program</b>	<b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>
<b>Requirement</b>	<b>Allowable cost - Cost principles</b>
<b>Statement of Condition</b>	<p>During our disbursements test of the Child Care and Development Block Grant Program we examined thirty two (32) disbursement transactions and we noted the following situations:</p> <ul style="list-style-type: none"><li>a. On three (3) electronic fund transfers the Municipality did not maintain evidence of the disbursement or journal voucher. These disbursements were related to the payroll reimbursements from the Child Care Program to the Municipality's General Fund.</li><li>b. On eight (8) disbursement vouchers the Municipality did not cancelled or marked as paid the documents along the disbursements voucher.</li><li>c. On four (4) disbursement vouchers there was no evidence of the invoice and receiving report or the certification of the Municipality's employee who receive of the good or services.</li></ul>
<b>Criteria</b>	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6) states that accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents and others.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls to assure that all disbursements made have all supporting documents and were realized for allowable costs.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6), provisions regarding allowable cost.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference**      **02-09 (Continued)**

**Recommendation**      We recommend that the Municipality should strength its procedures to assure that all disbursement transactions contain all supporting documents and approval signatures should be obtained before the related payments are made.

**Questioned Cost**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-10</b>
<b>Program</b>	<b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart C, Section 85.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate cash management procedures in order to request funds from federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-11</b>
<b>Program</b>	<b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	During our Cash Management test we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time.
<b>Criteria</b>	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7) state that the Municipality must maintain procedures in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate cash management procedures in order to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (7).
<b>Recommendation</b>	We recommend management to continue strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-12</b>
<b>Program</b>	<b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through the Commonwealth of Puerto Rico - Administration for Children and Families</b>
<b>Requirement</b>	<b>Eligibility</b>
<b>Statement of Condition</b>	<p>We performed an eligibility test and examined a sample of twenty five (25) participant's files. The following summarizes the situations found:</p> <ul style="list-style-type: none"><li>a. On five (5) participant files we noted that the Municipality did not verify the eligibility of the participants during the fiscal year 2001-2002.</li><li>b. On two (2) participant files we noted that the eligibility determination and the parent's contribution were determined using incorrect income amounts. This caused that the parent contribution was less than required.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations 45, Subpart C, Section 98.20 states that in order to be eligible for services, a child shall: (1) be under 13 years of age or be under age 19 and physically or mentally incapable of caring for himself or herself or under court supervision; (2) reside with a family whose income does not exceed 85% of the State's median income for a family of the same size; (3) reside with a parent or parents who are working or attending a job training or educational program or receive protective services. Also, the pass through agency promulgates controls and procedures to be used by the Municipality in the eligibility determination process.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-12 (Continued)</b>
<b>Cause of Condition</b>	The Municipality did not maintain adequate monitoring process to assure that the participants eligibility were revised at least annually and to assure that the parent's contribution were determined according with federal and local requirements.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 45, Subpart C, Section 98.20 and with the procedures promulgated by the pass through agency.
<b>Recommendation</b>	We recommend the Municipality to strength its procedure in order to assure that the participant files are revised periodically to determine if an annual eligibility examination is required. Also, we recommend the Municipality to assure that the participant's eligibility and the parents contributions are performed using the procedures established by the federal and local agencies.
<b>Questioned Costs</b>	None.
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference      02-13**

**Program                    Community Development Block Grants - State's Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico - Office of Commissioner of Municipal Affairs**

**Community Development Block Grant - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development**

**Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico - Administration for Children and Families**

**Requirement            Equipment and Real Property Management**

**Statement of Condition    Section II - Financial Statements Findings - Finding Reference 02-01.**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **02-14**

**Program**                      **Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs**

**Requirement**                **Procurement and Suspension and Debarment**

**Statement of Condition**   **During our contract provision test we noted the following situations:**

- a. Two (2) contracts did not include a provision for legal remedies when contractors violates contract term, and provide for such sanctions and penalties as may be appropriate.
- b. One (1) contract did not include a provision for termination by grantee for default.
- c. One (1) contract did not include a provision for compliance with Executive Order 11246 “Equal Employment Opportunity”.
- d. One (1) contract did not include a provision for compliance with Davis Bacon Act.
- e. One (1) contract did not include a provision for compliance with Sections 103 and 107 of the Contract Work Hours & Safety Standards Act.
- f. One (1) contract did not include a provision for granting access to GAO or other federally agency, to books and other documentation.
- g. Three (3) contracts did not include a provision for compliance with Energy Policy and Conservation Act.
- h. Three (3) contracts did not include a provision for compliance with the Copeland “Anti-Kickback” Act.
- i. Three (3) contracts did not include provisions for retention of all required records for three years.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-14 (Continued)</b>
<b>Criteria</b>	Code of Federal Regulations 24, Subpart I, Section 570.489 (g) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
<b>Cause of Condition</b>	The Municipality did not perform proper monitoring procedures to detect the exclusion of certain contract clauses in the procurement process.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 24, Subpart I, Section 570.489 (g).
<b>Recommendation</b>	We recommend that the Municipality should strength its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
<b>Questioned Costs</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-15</b>
<b>Program</b>	<b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Program Income</b>
<b>Statement of Condition</b>	<p>During our internal control tests over program income requirements we noted that the Municipality did not maintain controls procedures to assure:</p> <ul style="list-style-type: none"><li>a. That the program income was properly determined or calculated in accordance with stated criteria and that program income was only collected from allowable sources.</li><li>b. That all program income was properly recorded in the accounting records.</li><li>c. That program income was used in accordance with the program requirements and other applicable regulations.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulation 24, Subpart I, Section 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirements must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.</p>
<b>Cause of Condition</b>	<p>The Municipality did not maintain internal controls in order to assure the properly determination, accountability, and use of program income.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with the Code of Federal Regulations 24, Subpart I, Section 570.489 (d) (1).</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference**      **01-15 (Continued)**

**Recommendation**      We recommend management to develop internal control procedures in order to assure that the program income be: properly determined and calculated, properly recorded and used for allowable costs.

**Questioned Costs**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>02-16</b>
<b>Program</b>	<b>Community Development Block Grants – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through the Commonwealth of Puerto Rico – Office of Commissioner of Municipal Affairs</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	During our examination of reporting we noted the following situations on the Financial Quarterly Reports ended on June 30, 2002:  a. Cash outlays per general ledgers pertaining to program years 1999 and 2000 disagree with cash outlays reported in the quarterly reports for the period ended June 30, 2002.
<b>Criteria</b>	Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.
<b>Cause of Condition</b>	The Municipality financial management system failed to ensure accurate, current, and complete disclosure of the financial results of financially assisted activities
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulations 24, Subpart I, Section 570.489 (d) (1).

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference**      **02-16 (Continued)**

**Recommendation**      We recommend to the Municipality Management to reconcile differences between the financial quarterly report and the general ledgers before report submission to the Pass-through Grantor.

**Questioned Costs**      None

**Management Response**      The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-17</b>
<b>Program</b>	<b>Community Development Block Grants - Section 108 Loan Guarantees (CFDA. No. 14.248); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	During our reporting test we did not obtain evidence of the submission by the Municipality of a monthly written statement to the Secretary of HUD.
<b>Criteria</b>	The Contract for Loan Guarantee Assistance, Section 1 (b) states that the borrower should, by the fifteenth day of each month, provide the Secretary with a written statement showing the balances of funds in the Guaranteed Loan Fund Account and the withdrawals from such accounts during the preceding calendar month.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls and procedures to assure that the financial and programmatic reports were prepared according to the grant agreement.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Contract for Loan Guarantee Assistance Section 1 (b) relating to reporting requirements.
<b>Recommendation</b>	We recommend that that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies. Also, we recommend management to prepare such reports in accordance with the required accounting basis.
<b>Questioned Cost</b>	None
<b>Management Response</b>	The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

<b>Finding Reference</b>	<b>02-18</b>
<b>Program</b>	<b>Child Care and Development Block Grant (CFDA. No. 93.575); U.S. Department of Health and Human Services; Pass through Commonwealth of Puerto Rico - Administration for Children and Families</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	During our reporting test we noted that the Municipality did not maintain a reliable set of accounting records for the Child Care and Development Block Grant Program, thus, we could not obtain evidence that assure us that the Annual Closing Report (CC-006) for the program fiscal year ended September 30, 2001; the Trial Balance as of September 30, 2001 and the programmatic reports were prepared according to Federal and State Regulations.
<b>Criteria</b>	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (1) states that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.
<b>Cause of Condition</b>	The Municipality did not maintain adequate controls and accounting records to assure that the financial and programmatic reports were prepared according to Federal and State Regulations.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (1), provisions regarding financial reporting.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2002**

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

**Finding Reference**      **02-18 (Continued)**

**Recommendation**      We recommend that the Municipality should implement controls and procedures in order to assure that accurate accounting records are maintained and current and complete disclosure of financial results are presented in the financial reports. Also, we recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are submitted on time to the agencies and are prepared in accordance with the required accounting basis.

**Questioned Cost**      None

**Management Response**      The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-07	10.770	<u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u>  No corrective action has been taken.
01-08	10.770	<u>Failures related with the disbursement process</u>  No corrective action has been taken.
01-09	14.248	<u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u>  No corrective action has been taken.
01-10	14.228 14.248	<u>Failures related with the disbursement process</u>  No corrective action has been taken.
01-11	93.575	<u>The Municipality did not maintain a set of accounting records that present the financial position of the program.</u>  No corrective action has been taken.
01-12	93.575	<u>Failures related with the disbursement process</u>  No corrective action has been taken.
01-13	14.228	<u>Failures related to housing rehabilitation participant files</u>  No corrective action has been taken.
01-14	14.248	<u>The Municipality did not maintain adequate cash management procedures.</u>  No corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-15	93.575	<u>The Municipality did not maintain adequate cash management procedures.</u>  No corrective action has been taken.
01-16	14.228 14.248	<u>The Municipality did not apply monitoring procedures to assure contractors compliance with Davis-Bacon Act.</u>  Full corrective action has been taken.
01-17	10.770	<u>Inadequate Property Records</u>  No corrective action has been taken.
01-18	14.228 14.248	<u>Inadequate Property Records</u>  No corrective action has been taken.
01-19	93.575	<u>Inadequate Property Records</u>  No corrective action has been taken.
01-20	14.228	<u>Procurement and Suspension and Debarment - Contract's Provisions</u>  Full corrective action has been taken.
01-21	93.575	<u>Procurement - Failures in the request of quotations for the acquisition of good and services</u>  Full corrective action has been taken.
01-22	10.770	<u>Reporting Failures</u>  No corrective action has been taken.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2002**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-23	14.228	<u>Reporting Failures</u>  No corrective action has been taken.
01-24	14.248	<u>Reporting Failures</u>  No corrective action has been taken.
01-25	93.575	<u>Reporting Failures</u>  No corrective action has been taken.
00-19	93.575	<u>Inadequate Property Records</u>  No corrective action has been taken.
00-20	All Programs	<u>Accounting System and Federal Financial Report</u>  Partial corrective action has been taken.
00-21	10.770, 93.575	<u>Cash Management</u>  Partial corrective action has been taken.
00-22	10.770	<u>Records Retention Requirement</u>  Partial corrective action has been taken.
00-23	10.770	<u>Statement of Budget Income and Equity Balance Sheet</u>  No corrective action has been taken.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF JUNCOS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2002

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Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
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00-26	83.544	Activities Allowed or Unallowed - Allowable Cost
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Partial corrective action has been taken.

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