

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

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



**CAMPOS & STRATIS**  
CERTIFIED PUBLIC ACCOUNTANTS

Mercantil Plaza Building  
Suite 610  
San Juan, Puerto Rico 00918

Tel. (787) 763-7771  
Fax. (787) 751-8755

**MUNICIPALITY OF NARANJITO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2002**



**MUNICIPIO OF NARANJITO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2002**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>GENERAL PURPOSE FINANCIAL STATEMENTS</b>	
Independent Auditor's Report on General Purpose Financial Statements .....	1-2
<b>FINANCIAL STATEMENTS:</b>	
Combined Balance Sheet - All Fund Types and Account Groups .....	3-4
Combined Statement of Revenues, Expenditures and Changes in Fund Equity - All Fund Types .....	5
Statements of Revenues and Expenditures - Budget and Actual .....	6
Notes to Financial Statements .....	7-20
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....</b>	<b>21</b>
Schedules of Expenditures of Federal Awards .....	22
Notes to Schedule of Expenditures of Federal Awards .....	23
<b>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....</b>	<b>24-26</b>
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....</b>	<b>27-29</b>

.....	Page
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>30-34</b>
<b>STATUS OF PRIOR YEARS UNCORRECTED AUDIT FINDINGS .....</b>	<b>35-36</b>
<b>SCHEDULE OF PRIOR YEARS UNCORRECTED AUDIT FINDINGS ...</b>	<b>37-38</b>
<b>EXHIBIT 1:</b>	<b>39</b>

**MUNICIPALITY OF NARANJITO  
GENERAL PURPOSE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**INDEPENDENT AUDITOR'S REPORT ON  
GENERAL PURPOSE FINANCIAL STATEMENTS**

**Honorable Mayor and Members of  
the Municipal Assembly  
Municipality of Naranjito  
Naranjito, Puerto Rico**

We have audited the accompanying general-purpose financial statements of the **Municipality of Naranjito, Puerto Rico** (the Municipality), 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 this general purpose financial statements based on our audit.

Except as discussed in the third paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material 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 statement's presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of the Municipality's accounting records we were unable to form an opinion regarding the amount at which the fixed assets (stated at \$ 10,409,215) are presented in the accompanying combined general-purpose financial statements.

**INDEPENDENT AUDITORS REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED)**

In our opinion, except for the effects for the adjustments, if any, as might have been determined to be necessary had we been able to obtain a sufficient evidential matter to form an opinion regarding the amount at which the fixed assets are presented in the accompanying combined general purpose financial statements as discussed in the third paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipality of Naranjito 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 Governmental Auditing Standards, we have also issued our report dated December 19, 2002, on our consideration of Municipality of Naranjito internal control over financial reporting and our tests of its compliance with certain provision of laws, regulation, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the general purpose financial statements of Municipality of Naranjito. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended forth information of the Municipality's management and the Office of the Commissioner of Municipal Affairs. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Municipality, is a matter of public record.

*Campos & Stratis*  
Campos & Stratis, CPA

December 19, 2002  
San Juan, Puerto Rico

License No. 164  
Expires December 1, 2004

Stamp No. 1784154 was affixed to the original of this report.



**MUNICIPALITY OF NARANJITO  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ALL ACCOUNTS GROUPS  
AS OF JUNE 30, 2002**

	<b>ASSETS</b>			<b>ACCOUNTS GROUP</b>		<b>TOTAL MEMORANDUM ONLY</b>	
	<b>GOVERNMENT FUND TYPE</b>			<b>GENERAL</b>	<b>GENERAL</b>		
	<b>GENERAL</b>	<b>SPECIAL REVENUE</b>	<b>GENERAL DEBT SERVICE</b>	<b>FIXED ASSETS</b>	<b>LONG-TERM DEBT</b>		
<b>Cash:</b>							
Cash, including \$ in certificate of deposits	\$ 3,538,580	\$ 1,812,703				\$ 5,351,283	
Cash withheld by fiscal agent			\$ 831,791			831,791	
<b>Receivables:</b>							
Due from other governmental entities	42,704					42,704	
Due from other funds	294,234	1,217,783				1,512,017	
<b>Property and equipment:</b>				\$ 10,409,215		10,409,215	
<b>Other assets:</b>							
Amount to be provided for for payment of:						-	
Compensating absences					\$ 1,025,182	1,025,182	
Retirement of property tax advance					8,740	8,740	
Bonds and notes payable					714,209	714,209	
Amount available in debt service fund					831,791	831,791	
	<u>\$ 3,875,518</u>	<u>\$ 3,030,486</u>	<u>\$ 831,791</u>	<u>\$ 10,409,215</u>	<u>\$ 2,579,922</u>	<u>\$ 20,726,932</u>	

See auditors' report and accompanying notes to financial statements.

**MUNICIPALITY OF NARANJITO  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ALL ACCOUNTS GROUPS  
AS OF JUNE 30, 2002**

**LIABILITIES AND FUND EQUITY**

	GOVERNMENT FUND TYPES			ACCOUNTS GROUP		TOTAL MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	GENERAL DEBT SERVICE	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	
<b>Liabilities:</b>						
Accounts payable and accrued expenses	\$ 1,254,821					\$ 1,254,821
Due to other governmental entities	757,950					757,950
Due to other funds	1,217,783	\$ 294,234				1,512,017
Deferred revenue	563,533	1,617,329				2,180,862
Bonds and notes payable					\$ 1,546,000	1,546,000
Compensating absences					1,025,182	1,025,182
Property taxes advance					8,740	8,740
<b>Total liabilities</b>	<u>3,794,087</u>	<u>1,911,563</u>	<u>-</u>	<u>-</u>	<u>2,579,922</u>	<u>8,285,572</u>
<b>Fund equity:</b>						
Investment in general fixed assets				\$ 10,409,215		\$ 10,409,215
Fund balances:						
Reserved for debt service			\$ 831,791			831,791
Unreserved:						
Designated for specific fund purposes		1,118,923				1,118,923
Undesignated	81,431					81,431
<b>Fund equity</b>	<u>81,431</u>	<u>1,118,923</u>	<u>831,791</u>	<u>10,409,215</u>	<u>-</u>	<u>12,441,360</u>
<b>Total liabilities and fund equity</b>	<u>\$ 3,875,518</u>	<u>\$ 3,030,486</u>	<u>\$ 831,791</u>	<u>\$ 10,409,215</u>	<u>\$ 2,579,922</u>	<u>\$ 20,726,932</u>

See auditors' report and accompanying notes to financial statements.

**MUNICIPALITY OF NARANJITO  
COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND EQUITY-ALL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	GOVERNMENTAL FUND TYPES			TOTAL MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 928,009		\$ 317,893	\$ 1,245,902
Patents and others	847,272			847,272
Grants and contributions	4,474,452	\$ 2,223,456		6,697,908
Charges for services, rents and other	946,171	-	11,275	957,446
<b>Total revenues</b>	<b>7,195,904</b>	<b>2,223,456</b>	<b>329,168</b>	<b>9,748,528</b>
<b>Expenditures:</b>				
General government	4,174,480			4,174,480
Public works and sanitation	2,586,108	39,500		2,625,608
Public safety	156,970	76,781		233,751
Capital outlay		1,436,509		1,436,509
Education and recreation	311,929			311,929
Health and welfare	550,897	644,384		1,195,281
Debt service:				
Principal retirement			172,000	172,000
Interest charges			43,118	43,118
	<b>7,780,384</b>	<b>2,197,174</b>	<b>215,118</b>	<b>10,192,676</b>
<b>Excess (deficiency) revenues over expenditures</b>	<b>(584,480)</b>	<b>26,282</b>	<b>114,050</b>	<b>(444,148)</b>
<b>Other financing sources (uses):</b>				
Operating transfer in		606,191	-	606,191
Operating transfer out	(606,191)			(606,191)
	<b>(606,191)</b>	<b>606,191</b>	<b>-</b>	<b>-</b>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<b>(1,190,671)</b>	<b>632,473</b>	<b>114,050</b>	<b>(444,148)</b>
Fund equity, July 1, 2001	1,272,102	486,450	717,741	2,476,293
Fund equity June 30, 2002	\$ 81,431	\$ 1,118,923	\$ 831,791	\$ 2,032,145

See auditors' report and accompanying notes to financial statements.

*Edison en transferir en de ingresos (ver SA-6/30/2001)*  
*22/10/2002*

**MUNICIPALITY OF NARANJITO  
STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2002**

	GENERAL FUND			DEBT SERVICE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>Revenues:</b>						
<b>Taxes:</b>						
Property taxes	\$ 928,009	\$ 928,009	-	\$ 195,000	\$ 317,893	\$ 122,893
Patents and others	862,000	847,272	\$(14,728)			
Grants and contributions	4,802,696	4,889,569	86,873			
Charges for services, rents and other	551,500	946,171	394,671	35,000	11,275	(23,725)
<b>Total revenues</b>	<b>7,144,205</b>	<b>7,611,021</b>	<b>466,816</b>	<b>230,000</b>	<b>329,168</b>	<b>99,168</b>
<b>Expenditures:</b>						
General government	3,449,231	4,174,480	(725,249)			
Public works and sanitation	2,450,581	3,192,299	(741,718)			
Public safety	326,106	156,970	169,136			
Education and recreation	337,333	311,929	25,404			
Health and welfare	580,898	550,897	30,001			
Debt service				230,000	215,118	(14,882)
	7,144,149	8,386,575	(1,242,426)	230,000	215,118	(14,882)
<b>Excess (deficiency) revenues over expenditures</b>	<b>\$ 56</b>	<b>\$ (775,554)</b>	<b>\$ (775,610)</b>	<b>\$ -</b>	<b>\$ 114,050</b>	<b>\$ 114,050</b>

See auditors' report and accompanying notes to financial statements.

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

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

**A. Reporting entity:**

The Municipality of Naranjito is a political and juridical entity organized under laws of the Commonwealth of Puerto Rico.

The Municipality's operations include among others, health and welfare, public works, public safety, recreation, community development, welfare and general administrative services.

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 criteria set forth in generally accepted accountings principles. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of the ability is financial interdependency. Others manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Municipality is able to exercise oversight responsibilities.

The financial statements presented herein do not include agencies which have been formed under applicable laws or separate and distant units of government apart from the Municipality of Naranjito.

**MUNICIPALITY OF NARANJITO**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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

**B. Method of presentation:**

**Fund Accounting:**

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

**Governmental fund types:**

**General Funds:**

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

**Special Revenues Funds:**

Special Revenues Funds are established to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purpose.

**Debt Service Funds:**

Debt Service Funds are established to accumulate resources for the payment of principal, interest and related costs of general long-term debt obligation.

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

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

**B. Method of presentation (continued):**

**Account groups:**

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

**General Fixed Assets Account Group:**

This group of accounts is established to account for all fixed assets of the Municipality. General fixed assets are recorded as expenditures in the Governmental Fund and are capitalized at cost in the General Fixed Group of Accounts. Donated general fixed assets are recorded at fair market value of the asset at the time it was donated. Depreciation is not recorded in the general fixed assets account group.

**General Long-term Debt Account Group:**

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

**C. Budgetary control:**

The major submits and the Municipal Assembly approves an annual budget for each fiscal year beginning July 1st. Appropriations in the Municipality's budget consist of the following:

General Fund Appropriations for recurrent and ordinary functions of the Municipality.

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

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

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

**D. Basis of accounting:**

Governmental revenues and expenditures are recognized using the modified accrual basis. Under this method, revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, if measurable, except for unmeasured interest on general long-term debt, which is recognized when due.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as guide. Essentially, there are two types of these revenues. The first one requires that financial resources be spent in the specific projects and purposes before the revenue be recognized based on the recorded expenditures and submitted to the granting agencies for reimbursements. In the second type of intergovernmental revenues, the financial resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

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

Interest income is recorded when earned.

**E. Encumbrances:**

Accounting for encumbrances, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end, if any, do not constitute expenditures or liabilities and, therefore, are presented in the financial statements as a reservation of fund balance.

*[Faint, illegible text or stamp]*

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30,2002**

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

**F. Total column (memorandum only):**

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

**G. Property and equipment:**

Property and equipment used in governmental fund type operations are recorded as expenditures of various governmental funds and capitalized at cost or, if donated, at the estimated fair market value at time of contribution in the general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Depreciation is not provided on general fixed assets. Certain improvements constructed, such as roads, streets, gutter, curbs, sidewalks, drainage and bridges are not capitalized.

**H. Uses of estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures accordingly; actual results could differ from those estimates.

**2. CASH:**

- A. To facilitate better management of the Municipality's resources, substantially, all cash is combined in pooled operating accounts. The amounts reflected as cash in the balance sheet represent the individual's funds equity in pooled cash balance. Cash is deposited in interest bearing check accounts.
  
- B. The Municipality is required to deposit on institutions authorized by the Department of the Treasury of the Commonwealth of Puerto Rico to be a depository of public funds. The authorized depository institutions are required to maintain federal insurance and provide adequate collateral to the Department of the Treasury, who maintains it on custody.

**MUNICIPALITY OF NARANJITO**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**2. CASH (CONTINUED):**

C. Cash withheld by fiscal agents:

The Municipality levies an annual special tax of 1.03% of the assessed value of all real and personal property. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected and retained by the Municipal Income Collection Center (MICC) and deposited in an account with Governmental Development Bank of Puerto Rico (GB) as agent for the Municipality. At June 30, 2002, cash retained by the MICC amounted to \$831,791.

**3. VOLUME OF BUSINESS TAX:**

The volume of business tax is determined based on the gross income of all commerce and industrial organizations doing business in the Municipality of Naranjito that are not specifically exempt by law. An annual return of business volume should be filed on April 15 of each year and payable in two equal installments due on July 1st and January 1st. The tax rates are the following:

Financing institution = 1.50%

Other organizations = .50%

The collections in advance of patents of the next year or fiscal period are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$481,193 corresponding to the next fiscal year municipal license.

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**4. GRANTS AND CONTRIBUTIONS:**

Grants and contributions revenue consists of concessions and subsidies received from Government of Puerto Rico and contributions received from certain quasi-public corporations of Government of Puerto Rico such as the Electric Power Authority, and from certain federal agencies, such as U.S. Department of Housing and Urban Development.

Concessions and subsidies received from Government of Puerto Rico include among others, a general subsidy for general operations and for the financing of capital improvements.

Contributions received are in lieu of tax payments from quasi-public corporations. Grant and contributions revenues are recorded in the General Fund, except those legally restricted to expenditures for specific purposes, which are recorded in the Special Revenue Fund.

**5. PROPERTY, AND EQUIPMENT:**

A summary of changes in property and equipment is as follows:

	<b>Balance July 1, 2001</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2002</b>
Land, building and improvements	\$5,134,282			5,134,682
Furniture, fixture, machinery and Equipment	2,217,893	102,513	150,561	2,169,845
Vehicles	<u>2,087,139</u>	<u>246,277</u>	<u>228,231</u>	<u>2,105,185</u>
	<u>\$9,439,714</u>	<u>\$ 348,780</u>	<u>\$378,792</u>	<u>\$ 9,409,712</u>

Adjustment to fixed asset was made during the year since management finish to update fixed asset ledger. Adjustment increase fixed assets by \$999,503 to a total of \$10,409,215.

**MUNICIPALITY OF NARANJITO  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2002**

**6. GENERAL LONG-TERM DEBTS:**

General obligations at June 30, 2002 are comprised of the following:

A. Notes and bonds payable:

1984-\$143,000 public improvement bond, due in annual principal installments ranging from \$7,000 to \$10,000 through January 1, 2007, plus interest at 5%.	\$ 44,000
1998-\$260,000 general obligation note, due in annual principal installments ranging from \$50,000 to \$50,000 through July 1, 2002, plus interest at 8%.	60,000
1995-\$400,000 lottery special fund note, due in annual principal installments ranging from \$15,000 to \$ 40,000 through July 1, 2016, plus interest at 8.00%.	330,000
1998-\$275,000 general obligation bond, due in annual principal installments ranging from \$13,000 to \$21,000 through January 1, 2015, plus interest at 4.5%	237,000
1998-\$250,000 general obligation note, due in annual principal installments ranging from \$30,000 to \$45,000 through July 1, 2005, plus interest at 8%.	160,000
2001-\$235,000 general obligation note, due in annual principal installments ranging from \$40,000 to \$55,000 through July 1, 2004, plus interest at 12%.	150,000
2001-\$56,000 general obligation bond, due in annual principal installments ranging from \$1,000 to \$3,000 through 2024, plus interest at 4.5%.	54,000
2002-\$475,000 general obligation bond, due in annual principal installments ranging from \$55,000 to \$70,000 through January 1, 2010, plus interest at 4.5%	475,000
2001-\$38,000 general obligation bond, due in annual principal installments ranging from \$1,000 to \$3,000 through 2025, plus interest at 4.5%.	<u>36,000</u>
	<u>\$1,546,000</u>

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**6. GENERAL LONG-TERM DEBTS (CONTINUED):**

Property tax advances:

Due to Treasury Department, fiscal years preceding 1999, payable in monthly installments of \$76 through 2010.

\$ 8,740

The following is a summary of general obligation transactions for year ended June 30, 2002:

	<b>PROPERTY TAX ADVANCES</b>	<b>NOTES AND BONDS PAYABLE</b>
Balance July 1, 2001	\$ 9,661	\$1,243,000
Proceed from loans		475,000
Principal payments	<u>(921)</u>	<u>(172,000)</u>
Balance, June 30, 2002	<u>\$ 8,740</u>	<u>\$1,546,000</u>

Proceeds of general obligations are recorded in the Special Revenue Funds and are restricted to the use for which they are approved.

The maturity of general obligations is as follows:

<b>YEAR ENDING JUNE30</b>	<b>PROPERTY TAX ADVANCES</b>	<b>NOTES AND BONDS PAYABLE</b>
2003	\$ 921	\$ 234,000
2004	921	190,000
2005	921	201,000
2006	921	152,000
2007	921	118,000
Thereafter	<u>4,135</u>	<u>651,000</u>
	<u>\$ 8,740</u>	<u>\$1,546,000</u>

**MUNICIPALITY OF NARANJITO**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**7. COMPENSATED ABSENCES:**

Employees are entitled to 30 days vacations leave and 18 days sick-leave per year. The regular vacations can be accumulated maximum 60 days at the end of a calendar year and for sick up to 90 days. Vacations are recorded as expenditure in the year paid. Employees are entitled to payment of unused sick-leave upon retirement.

**7. DUE FROM/TO OTHER GOVERNMENTAL ENTITIES:**

	<u>GENERAL FUND</u>
Due from:	
Municipal Income Collection Center	\$104,982
Due from:	
Puerto Rico Electrical Power Authority	\$ 42,704

**9. PROPERTY TAXES:**

The Municipal Income Collection Center (MICC) is responsible for the appraisal of all real personal property located in the Municipality and for the imposition, administration and collection of the respective taxes.

Property taxes are levied annually over the property-assessed value at beginning of the calendar year, which amounts to 5.37% of the personal property and 7.37% of the real property values. The real property appraisal is based on the property appraisal value of 1957 and the personal property in the current value at the appraisal time. The Municipality grants retailers with a volume of business have less than \$150,000 movable property tax exceptions up to \$50,000 of the assessed value of the property. Also, property tax law grants, under certain circumstances, a tax exemption (exonerated) for the first \$15,000 of the assessment made to properties occupied by the owner. Nevertheless, the Department of the Treasury pays the Municipality the basic tax related to those \$15,000, except for properties that have an assessed value of less than \$3,500, which have full exemptions.

**MUNICIPALITY OF NARANJITO**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2002**

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

The total tax levied included an additional special property tax (1.03%). The basic property tax is used for general purposes and is accounted in the General Fund. The additional special property tax is retained by the MICC (cash with fiscal agent) and is used and designated for debt services and accounted in the Debt Service Fund.

The MICC charges to the Municipality for administration expenses related to the imposition and collection of property tax. For the year ended June 30, 2002, MICC charged \$36,068 for these services.

The MICC notifies annually to the Municipality the estimated basic additional property taxes that they expect to collect in the next fiscal year. The Municipality through advances from the MICC receives the basic property tax. When the MICC collects the contributions from the taxpayers, this collection is applied against the respective advances.

The additional special property tax is recorded as revenue in the Debt Service Fund, when it is collected and notified by the MICC.

No income is recognized from property taxes levied, but not collected because the Municipality is not able to determine the amount of such receivable and if the same is collectible within the 60 days period after the balance sheet date as required by the generally accepted accounting principles applicable to governmental entities. The records of such receivable are kept and maintained by the MICC.

**10. EMPLOYEE'S RETIREMENT PLAN:**

The Municipality is a member of the Puerto Rico Retirement System for State Employees, which covers all eligible full-time employees. Total pension expense amounted to \$219,210 for the year ended June 30, 2002. The Municipality provide to the fund 8.275% of the gross salaries of the participating employees. The participants provide 8.275% of their gross salaries or 5.77% for the first \$600 and 8.275% of the excess if selected by the participants entered in the plan before April 30, 1990. If participant entered in the plan after such date it is required to provide the 8.275% of his gross salary.

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**11. FUND EQUITY:**

**Reserved for encumbrances:**

This amount, if any, represents encumbrances outstanding at the end of the year based on contracts signed by the Municipality, but not completed as of the end of the fiscal year.

**Designated for debt service:**

In accordance with legal restriction, these amounts are reserved for payments of principal and interest of general long-term debt maturing in later years. The resources for this reserve arise from the additional special contribution of property taxes.

**12. BUDGETARY COMARISONS:**

As describe in Note 1, the statement of revenues and expenditures budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with the generally accepted accounting principles.

The principal differences between budgetary basis and generally accepted accounting principles, are as follows:

- A. The encumbrances are recorded as expenditures in the budgetary basis instead as a reserve of the fund balance. However, encumbrances outstanding at year-end, if any, are not material.
- B. Transfers in and out are recorded as revenue or expense instead as other financing sources.

Adjustments necessary to reconcile the revenues and expenditures at the end of the fiscal year from generally accepted accounting principles to budgetary basis, are as follows:

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**12. BUDGETARY COMPARISONS (CONTINUED):**

	GENERAL FUND		DEBT SERVICE FUND	
	REVENUE	EXPENDITURES	REVENUE	EXPENDITURES
General Fund:				
General accepted accounting principle basis	\$7,611,021	\$7,780,384	\$329,168	\$215,118
Transfer out/in recorded as revenue/expense on the budgetary basis		606,191		
Budgetary basis	\$7,611,021	\$8,386,575	\$329,168	\$215,118

The budget amounts shown in the financial statement are the final authorized amounts as revised during the year.

**13. - COMMITMENTS:**

During June 30, 2002, the Municipality of Naranjito has entered in an operating lease with the Landfill Technologies of Toa Alta Corp. to collect the waste of the Municipality and for the use of the municipal solid waste landfill of Toa Alta. Amount vary from month to month base on total waste collected.

**14. CONTINGENCIES:**

**A. Litigation:**

The Municipality is defendant and/or co-defendant in various pending claims and lawsuits. Some of these cases are covered by the insurance policies. The Municipality's management, after consultation with legal counselors, is of the opinion that the ultimate liability, if any, would not be significant to the Municipality's financial statements.

**MUNICIPALITY OF NARANJITO  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

**14. CONTINGENCIES (CONTINUED):**

**B. Federal grants:**

In the normal course of operations, the Municipality of Naranjito receives grant funds from various US Federal Agencies. The grant programs on subject to review and audit by agents of granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Although, such audits could generate expenditures disallowance under terms of the grants, its is believed that any required reimbursement would not be material.

**15. SUBSEQUENT EVENTS**

During 1999 the previous administration stop updating the fixed asset register. Since incumbent administration took power they commence the process of updating the fixed asset register and its inventory records. By the end October 2002 management finish to update the general fixed register in the computer system and commence gathering supporting evidence on a per asset basis. As of the date of this report this process have not been completed. We perform audit procedure to the fixed assets ledger in order to collect evidence to support the balance in the financial statements. Although no material difference in costing and quantities have been identify, due to the scope limitation on supporting documentation availability we qualify our opinion in this report.

**MUNICIPALITY OF NARANJITO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

MUNICIPALITY OF NARANJITO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFA NUMBER</u>	<u>EXPENDITURES</u>
<b><u>US Department of Housing and Urban Development</u></b>		
Passed through the Puerto Rico Office of the Commissioner of Municipal Affairs State Block Grant Program – Small Cities Program – Direct Program:	14.219	\$ 79,571
Section 8 – Lower Income Housing Assistance Payment Program	14.856	<u>518,215</u>
Total US Department of HUD		<u>597,786</u>
<b><u>Department of Health and Human Services:</u></b>		
Passed through Office of Governor: Special Program of aging:		
Title III, Part B – Grant for Supportive	93.044	106,661
Title III, Part C – Nutrition Services	93.045	<u>28,774</u>
		<u>135,435</u>
<b><u>Federal Emergency Management Agency:</u></b>		
Direct Program: Disaster Assistance	83.516	<u>98,498</u>
<b><u>Department of Transportation</u></b>		
Federal Transportation Agency Federal Transit Capital Improvement Grants	20.500	<u>73,023</u>
		<u>\$ 904,742</u>

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

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

**Honorable Mayor and Members of  
the Municipal Assembly  
Municipality of Naranjito  
Naranjito, Puerto Rico**

We have audited the general-purpose financial statements of **Municipality of Naranjito, Puerto Rico**, as of and for the year June 30, 2002 and have issued our report there on dated December 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Municipality of Naranjito general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items Section 11-1 Accounting Records and Report.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL (CONTINUED).-

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Naranjito internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Naranjito's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items Section 11-1 - Accounting Systems and Reports.

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 by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management of Municipality of Naranjito, and Naranjito Municipal Assembly. However, this report is a matter of public record and its distribution is not limited.

CAMPOS & STRATIS

*Campos & Stratis*

December 19, 2002  
San Juan, Puerto Rico

License No. 164  
Expires December 1, 2004

Stamp No. 1784155 was affixed to the original of this report.

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

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

**Honorable Major and Members  
of the Municipal Assembly  
Municipality of Naranjito  
Naranjito, Puerto Rico**

**Compliance:**

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

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 OMB Circular A-133, Audits of States and 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 non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes, examining, on a test basis, evidence about Municipality of Naranjito, Puerto Rico compliance with those requirements and performing such other procedures as we consider necessary in the circumstance. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Naranjito, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)

In our opinion, Municipality of Naranjito Puerto Rico, complied, in all material respect, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weakness.

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

Campos & Stratis, CPA

*Campos & Stratis*

November 26, 2002

San Juan, Puerto Rico

License No. 164

Expires December 1, 2004

Stamp No. 1784156 was affixed to the original of this report.

RECIBIDO  
UNIDAD DE PLANEO  
02 DEC 30 PM 2:21  
MUNICIPALIDAD DE NARANJITO

**MUNICIPALITY OF NARANJITO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30,2002**

**MUNICIPALITY OF NARANJITO**      **CAMPOS & STRATIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

**Type of auditor's report issued**

**Qualified**

Internal control over financial reporting:

•Material weakness(es) identified?       yes       no

•Reportable condition(s) identified  
that are not considered to be material  
weaknesses?       yes       none reported

Noncompliance material to financial  
statements noted?       yes       no

**Federal Awards**

Internal control over major programs:

•Reportable condition(s) identified  
that are not considered to be  
material weakness(es)       yes       none reported

Type of auditor's report issued on compliance for major programs unqualified.

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of Circular A-133?       yes       no

Identification of major programs:

CFDA Number(s)	Name of Federal Program Cluster
14.856	Section 8

Dollar threshold used to distinguish  
between type A and type B programs:      \$300,000

Audited qualified as low-risk audited?       yes       no

**MUNICIPALITY OF NARANJITO**      **CAMPOS & STRATIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

The Municipality of Naranjito has been subject to various audits and program monitoring compliance over the past years. Most of the audit findings for the year ended June 30, 2001 are repetitive in nature because in most instance corrective actions are in process and are included below for follow-up purpose.

**I. ACCOUNTING RECORDS AND REPORTS:**

Our study and evaluation of the Municipality's accounting records and related internal control procedure disclosed the following:

- A. As part of the responsibilities of the office of the Commissioner of Municipal Affairs an uniform accounting systems was installed in the Municipality. At, present, transactions are accounted through manual and computerized accounting system. However, differences in balances were noted in both systems and no reconciliation was performed. Moreover, the Municipality did not comply with Law No. 81 of 1991, ("Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico"). This law provides for the constitution, organization, administration and operation of the municipalities' government. Also, it provides for the modernization of the systems and procedures in order to establish efficient accounting controls and operating procedures
  
- B. The accounting records kept by the Municipality cannot perform the following information:
  - 1. Provide for a balance separate self balancing accounts group that compose its assets, liabilities, fund equity, revenues and expenditures as required by GAAP.
  
  - 2. Provide for a proper segregation between encumbrances and accounts payable.
  
  - 3. The Municipality is not utilizing properly the subsidiary ledger provide for a subsidiary ledger of general long-term debt.

**MUNICIPALITY OF NARANJITO**      **CAMPOS & STRATIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**SECTION II- FINANCIAL STATEMENTS FINDINGS (CONTINUED)**

**I. ACCOUNTING RECORDS AND REPORTS (CONTINUED)**

We believe the Municipality shall assign this responsibility to a special task force composed of personnel from different divisions of the Municipality to have this system working at full capacity shortly. The benefits to be derived will exceed the extra effort needed.

As part of this process, a comprehensive plan should be established to evaluate the operations of the system as well as to establish the necessary input and output control system.

**C. During our examination of the Municipality's property records we noted the following:**

1. No system has been established to gather all capitalizable cost of construction in progress.
2. Not all property is identified by prenumbered labels to indicate the Municipality's ownership.
3. Acquisition of property is not included in the property and equipment ledger.

An accounting system must make it possible to:

- A. Present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and
- B. Determine and demonstrate compliance with finance, legal and contractual provisions.

In order to streamline the accounting and reporting system and provide proper closing of records and adequate and timely information, we recommend that the Municipality's system be modified through the implementation of the appropriate accounting records and procedures.

**MUNICIPALITY OF NARANJITO** **CAMPOS & STRATIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**SECTION III-FEDERAL AWARDS FINDINGS AND QUESTIONED COST:**

**None**

**MUNICIPALITY OF NARANJITO  
STATUS OF PRIOR YEAR UNCORRECTED  
AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

**MUNICIPALITY OF NARANJITO**      **CAMPOS & STRATIS**  
**STATUS OF PRIOR YEARS UNCORRECTED AUDITS FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

The Municipality of Naranjito, Puerto Rico, has been subjected to various audits and program monitoring compliance over the past years. Following is a summary of audit findings for which final determination and/or corrective action are in process. Most of these findings still prevail for the year ended June 30, 2002. This summary includes a brief description of the findings and their status. Repeat findings from the audit report for the year ended June 30, 2001, are included as current year findings for the current year audit report. Therefore, findings included in the audit report for the year ended June 30, 2002, encompass unresolved findings mentioned in the audit report for the fiscal year ended June 30, 2001, dated March 17, 2002.

**MUNICIPALITY OF NARANJITO**  
**SCHEDULE OF PRIOR YEAR UNCORRECTED FINDINGS**  
**YEAR ENDED JUNE 30, 2002**

**CAMPOS & STRATIS**

<b>AUDIT REPORT</b>	<b>QUESTIONED COST</b>	<b>ACTUAL STATUS</b>
<b>SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30 2002</b>		
<b>Accounting Records and Reports:</b>		
<p>1. Differences in balance in manual and computerized accounting reports, without any reconciliation been made in both systems.</p>	\$-0-	<p>Conditions continues See current year finding.</p>
<p>2.The accounting records kept by the Municipality can not prefer the Following forms :</p>		
<p>a. Provide for a self-balancing group accounts that compose its assets, liabilities fund balances, revenue and expenditures.</p>	\$-0-	<p>Condition continue See current year finding</p>
<p>b. Provide proper segregation between encumbrances and accounts payable.</p>	\$-0-	<p>Condition continues See current year findings</p>
<p>c. Provide for a subsidiary of long-term debt.</p>	\$-0-	<p>Condition continues See current year findings</p>
<p>3.During Our examination of the Municipality's property records we Noted the following:</p>		
<p>a. No system has been established to gather all capitalizable costs of construction in progress</p>		<p>Condition continues See current year findings</p>

**MUNICIPALITY OF NARANJITO**  
**SCHEDULE OF PRIOR YEARS UNCORRECTED FINDINGS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2002**

**AUDIT REPORT**

**ACTUAL STATUS**

**SINGLE AUDIT REPORT FOR THE  
YEAR ENDED JUNE 30, 2000**

b. Not all property is identified by renumbered labels to indicate the Municipality's ownership.

Condition continues  
See current year findings

**MUNICIPALITY OF NARANJITO**  
**EXHIBIT I**  
**MANAGEMENT RESPONSE TO FINDINGS**  
**JUNE 30, 2002**



*Hon. Manuel de J. Ortega Rodríguez*  
*Alcalde*

December 19, 2002

**CORRECTIVE ACTIONS  
AUDIT REPORT 2001-2002**

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

**ACCOUNTING RECORDS AND REPORT**

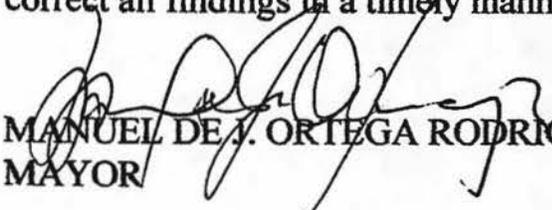
The Finance Director will coordinate with the Municipality Affairs Commissioner's Office (OCAM) the following corrections to the accounting records:

- Will made the necessary adjustment to correct the computerized system and reconcile with the manual accounting system. This work is now in process.
- The new computerized system will segregate encumbrance and accounts payable.
- The subsidiary ledger is projected to be working properly by the end of fiscal year 2002-2003.
- The construction in progress cost will be accounted in the new computerized system. The personnel from OCAM are offering technical support to make it possible.

Also the Finance Director is working in the coordination of the correction of the following findings:

- Renumbering all property held by the Municipality.
- Keep track of all property acquired and disposed by the municipality.
- Generate a full disclosure financial statement.

The OCAM is offering technical support to the Municipality for all matters mentioned above. Also the Municipality contract outsources technical support to correct all findings in a timely manner.

  
MANUEL DE J. ORTEGA RODRIGUEZ  
MAYOR