

COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMPTROLLER

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2002



Prepared by the Office of the Comptroller of Puerto Rico

Manuel Díaz Saldaña, CPA, CFE
Comptroller

December 30, 2002



“When we are out of here and anywhere and wherever we are recognized, they shall say about us, he is one from February 6, 1952.”

Antonio Fernós Isern, Chairman
last day of the First Constitutional Convention,
February 6, 1952

WE COUNT ON YOUR COOPERATION
TO IMPROVE THE OVERSIGHT
FUNCTION AND ADMINISTRATION OF
PUBLIC FUNDS AND PROPERTY

Additional information on the Office of the
Comptroller of Puerto Rico is available at:

www.ocpr.gov.pr

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COMMONWEALTH OF PUERTO RICO OFFICE OF THE COMPTROLLER

MISSION

To oversee the transactions of public funds and property, with independence and objectivity, in order to ascertain that they have been carried out in accordance with the law. To promote the effective and efficient use of government resources for the benefit of our people.

VISION

To be a world class model for public office, distinguished by: the excellence of its highly qualified human resources, its dedication to continuous improvement, a sophisticated infrastructure and optimum quality service.

To serve Puerto Rico as a true agent of change, integrating the efforts of the public and private sectors, in order to promote the honest use of the resources entrusted to the government by the people.

VALUES

COMMITMENT	We are dedicated to our work.
INTEGRITY	We work in a responsible manner.
SENSIBILITY	We respect the dignity of all human beings.
JUSTICE	We watch for the strictest compliance with the law.
EXCELLENCE	We are constantly improving ourselves.



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COMMONWEALTH OF PUERTO RICO OFFICE OF THE COMPTROLLER

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For fiscal Year Ended June 30, 2002

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Introduction Section

Comprehensive Annual Financial Report



FIRST CONSTITUTIONAL CONVENTION OF PUERTO RICO INAUGURAL SECTION

September 17, 1951 to February 6, 1952

On December 11, 1951, the 29th day of the Session, article 23 of the Constitution that was being prepared, stated: "The Governor shall appoint, with the approval of the Senate and the House of Representatives, by the majority of the members that form each of the chambers, a comptroller who shall occupy his position for a term of ten (10) years, and until his successor is appointed and assumes the position"

Comptrollership at your service...



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Letter of Transmittal

Comprehensive Annual Financial Report



Rafael de J. Cordero

Rafael de J. Cordero
1952-1961

FIRST PUERTORICAN AUDITOR AND FIRST COMPTROLLER OF THE COMMONWEALTH OF PUERTO RICO

"The Comptroller cannot elude his constitutional duty of establishing if the accounts, reimbursements and collections have been done pursuant to the law. And, although this determination may cause problems of legal interpretation, said official absolutely cannot refuse to offer his opinion in matters in which there is doubt, if he has all the elements necessary to judge them."

"Public administrators must have a social conscience and must know that their function is part of a group of services that must be offered to the public. They must know the importance that their function has in relation to the rest of the government, of public administration."

Comptrollership at your service...



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COMMONWEALTH OF PUERTO RICO OFFICE OF THE COMPTROLLER

Manuel Díaz Saldaña
Comptroller

December 30, 2002

To the Governor of Puerto Rico,
the President of the Senate,
the Speaker of the House of Representatives,
the Members of the Legislature,
and the People of Puerto Rico:

It is our pleasure and ministerial duty to submit the Comprehensive Annual Financial Report of the Office of the Comptroller of Puerto Rico, hereinafter referred to as the Office, for the fiscal year ended June 30, 2002. The Office is responsible for the accuracy, completeness, and fairness of the information and disclosures included in this document. To the best of our knowledge, the information presented herein is accurate. All disclosures necessary for a reasonable understanding of the Office's financial activities have been included.

The Comprehensive Annual Financial Report includes three sections:

Introduction: This section has not been audited and provides general information about the report. It also includes the Comptroller's transmittal letter, a listing of the principal officers, and an organizational chart of the Office.

Financial: The Financial Section comprises the Report of the Independent Auditors, the financial statements of the Office, notes to the financial statements and the Report of Independent Auditors on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards.

Statistics: These data have not been audited. They provide information about finances, economics, and operational matters related to the Office that is generally presented on a comparative basis.



General Information about the Commonwealth of Puerto Rico

Geography and Population

Puerto Rico is the fourth largest of the Caribbean islands and is located approximately 1,600 miles Southeast of New York. It is approximately 100 miles long and 35 miles wide. According to the United States Census Bureau, the population of Puerto Rico was approximately 3,800,000 in 2000. However, the Puerto Rico Planning Board estimates that as of July 2006, the population will be 3,907,122.

Relationship with the United States

Christopher Columbus discovered Puerto Rico in 1493. Shortly thereafter, the Island was settled by the Spaniards and remained as a Spanish possession for four centuries. The Island came under the sovereignty of the United States with the signing of the Treaty of Paris on December 10, 1898, at the conclusion of the Spanish-American War.

Puerto Ricans became citizens of the United States in 1917, by virtue of the Jones Act, approved by the Congress of the United States. In 1950, the Congress of the United States enacted Public Law 600 in order to allow for an increased self-government for the island. This Law set forth the political, economic and fiscal relationship between Puerto Rico and the United States. It also provided for the drafting and adoption of a local constitution on July 25, 1952. Among other things, our constitution created the position of the Comptroller and defined its role in government.

The Constitution of Puerto Rico was drafted by a Constituent Commission, approved in a special referendum by the people of Puerto Rico, amended and ratified by the United States Congress, and subsequently approved by the President of the United States. The official designation of the Government or body politic has henceforth been “Estado Libre Asociado”, which literally translates to “Free Associated State”, and has been called “Commonwealth” by the United States Government.

Puerto Rico exercises virtually the same control over its internal affairs as any of the fifty states of the Union. However, it differs from the federated states in its relationship with the Federal Government. The People of Puerto Rico are citizens of the United States, can only vote in local (Puerto Rico) elections, and are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives and limited voting power.

General Information of the Office of the Comptroller

The Comptroller of Puerto Rico has the constitutional duty to oversee all revenues, accounts and disbursements of the Commonwealth of Puerto Rico and to ascertain that all operations involving public funds and public property are performed according to applicable laws and regulations. This authority arises from Section 22, Article III of the Constitution of the Commonwealth of Puerto Rico, and from the Public Law that creates the Office of the Comptroller of Puerto Rico, Law No. 9 of July 24, 1952, as amended.



On October 2, 1997, the Governor appointed CPA Manuel Díaz Saldaña as Comptroller, with the advice and consent of the Legislature, as prescribed by the Constitution. This appointment is for a term of 10 years.

Government agencies are audited through the application of various Government Auditing Standards and other pertinent investigative techniques adopted by the Office. Results, including findings and recommendations, are presented in the audit reports, thus providing for appropriate corrective actions. Violations of law are referred to the appropriate administrative, civil or criminal enforcement agencies.

The Office has divided all the government entities of the Executive, Legislative and Judicial branches into 2,361 units for auditing or examination purposes. This figure includes departments, agencies, public corporations, municipalities, and 1,537 community schools.

The findings of the audit reports fall under two main categories:

Primary: Serious violations of law and applicable regulations are considered primary violations. These include: errors, irregularities of material importance related to falsification, embezzlement, misapplication of accounting standards and relevant legal dispositions, mathematical errors or misinterpretation of facts.

Secondary: Inconsequential omissions or errors.

The chief executive of the audited agency is required to inform the Office of the actions that have been taken or that will be taken in order to comply with the recommendations resulting from the audit.

Official Seal and Shield

A new seal and shield were adopted during fiscal year 1997-98. The silver field represents the integrity, firmness and vigilance of the Office of the Comptroller of Puerto Rico in our mission to oversee the transactions of public funds and property, with independence and objectivity, to ascertain that they have been carried out in accordance with the law. The terrestrial globe means that we are part of a world in constant evolution and improvement. This is an essential component of our organizational vision, to be a world class model for public office. The satellite represents the era of information technology systems and telecommunications, essential instruments for a leading role position in auditing techniques, and much needed to achieve a sophisticated infrastructure for optimum quality services. The sky-blue color within the left partition represents justice, loyalty and truth, special qualities present in our daily work. The two keys on top mean fidelity, security and discretion in the custody of the public funds represented by the golden bezant coins.

Strategic Plan

Our new Strategic Plan contains the view of the Office of the Comptroller for the years 2001-2004. Eight focal areas are identified therein, with new strategies and activities that will be developed in order to make a reality the projected goals. The constant commitment of the Comptroller's working team warranties compliance with this new Plan, which reflects the following advances:



Oversight

Published 179 audit reports, which is a five percent increase over the previous fiscal year.

Some special reports issued were:

1. Review of the fiscal and administrative procedures of twenty community schools of the Department of Education (September 25, 2001).
2. Second evaluation of the effectiveness of the sections which compose the Land Title Office of Puerto Rico (August 28, 2001).
3. Two reports of the operations of the Puerto Rico Aqueduct and Sewer Authority and the Water and Wastewater Plants (October 23, 2001 and April 5, 2002).
4. Fourth evaluation of the administrative efficiency and compliance by the municipal administrations with certain criteria established by this Office (April 29, 2002). Due to the effort displayed, we granted awards to 66 of the 78 municipalities (85 per cent) for meeting prescribed standards.
5. Reviewed the procedures followed by the Treasury Department to estimate the revenues for the General Fund for Fiscal year 2001-02, as requested by the Legislature of Puerto Rico, and published two reports on April 17, 2002.

Education and Orientation

1. Published three quick reference guides on:
 - a. Fiducial Responsibility of the Members of the Board of Directors of Public Corporations
 - b. Fiducial Responsibility of Municipal Legislators
 - c. Seven Fundamental Phases for a Successful Privatization
2. Revised reference guide on:
 - a. Legal Principles Pertaining to Professional and Consulting Service's Contracts
3. Published two information booklets on:
 - a. Submitting Complaints to the Office of the Comptroller
 - b. General Information on the Organization of the Office of the Comptroller
4. Offered lectures on audit and good management practices regarding Public Funds and Property to 3,334 government officials and employees.



5. Offered lectures to all elected public officers on the proper use of public funds and property in compliance with Law No. 222 of August 6, 1999. The lectures were given to 54 elected officials.

Developing Strategies for Proper Administration

1. Signed a Cooperation Agreement with the Court of Accounts of the Dominican Republic.
2. Participated in the Annual Meeting of the National State Auditors Association and were designated to form part of the Homeland Security Committee.
3. Participated in the Annual Meeting of the *Organización Latinoamericana y del Caribe de Entidades Fiscalizadoras Superiores*.
4. Started a public awareness program called “Comptrollership at your Service”, in which we installed a booth on two shopping malls, on two different occasions, and distributed information regarding our audit and prevention programs.
5. Prepared a work plan to manage the Corrective Action Plan.

Customer Services

1. We continue our team work to improve our processes. Among others, the period of time in which to make more efficient the following processes has been reduced:
 - a. Transmittal of requests of contracts (one to five contracts) from three days to 22 minutes.
 - b. Receipt, evaluation and transmittal of complaints from 25 days to five days.
 - c. Receipt and transmittal of legal consultations from 151 days to 11 days.
2. In tune with our paper-less policy, press releases for publication of audit reports are made through electronic mail, thus reducing the use of paper in 37%.
3. We integrated the facilities of the Professional Development Center and the Orientations and Special Activities Center in order to provide a more efficient service to our internal clients and use our resources better.

Human Capital

1. An opening activity to celebrate the Fiftieth Anniversary of the Office was held January 11, to foster cohesion of the group and inform the personnel about the contributions of the members of the Office, since its creation on July 24, 1952.



2. A new Personnel Evaluation system was completed and implemented to make it more agile and efficient, consolidating and modifying the emphasis assigned to criteria, and including team work and special projects assigned to the personnel as part of the new criteria to be considered.
3. As part of the Employee Assistance Program an individualized counseling service was established to improve the quality of life of our fellow workers and their family nucleus, which results in greater productivity.
4. All of the Auditing and support personnel completed the 40 and 24 required training hours.

Technology

We continue to install appropriate equipment and software to support the demands of the Office. Thus, our infrastructure have been enhanced as follows:

1. Implemented additional physical security procedures for the servers.
2. Implemented a search engine for our Web Site www.ocpr.gov.pr.
3. Published knowledge articles for end-user service on common problems of mission critical applications.
4. Implemented an asset management system.
5. Upgraded the Contracts Registry System (Law No. 18 of October 30, 1975, as amended) and the Government Lost Property Notification System (Law No. 96 of June 26, 1964, as amended) to expedite government agencies compliance and improve the effectiveness of the systems.
6. Developed and published of several IT security procedures.

Communication

The celebration of the First Summit on Administrative Excellence on February 6, 2002 marks a significant event during the year of the Fiftieth Anniversary of the office. We highlighted the great significance of the prevention phase by communicating and educating the general public on the role of this Office. Simultaneously, an internal campaign to strengthen the sense of belongingness among our personnel was implemented. Some of the achievements are:



1. The combination of several elements that portray the collaboration of fellow workers in internal activities such as: Institutional Video, internal publications, 30 seconds ad prepared by students of the Sacred Heart University on the account of the Fiftieth Anniversary of the Comptroller's Office, with fellow workers in the main roles, has been attained.
2. To foster a sense of loyalty toward work, several surveys and evaluations were conducted with the purpose of obtaining the input of our fellow workers on the Intranet services that are more useful to them.
3. Develop far-reaching campaigns to take the message of the task that OCPR performs, and get needed cover in the means of communication. Among the numerous activities are the following:
 - a. A 2nd Journalist Workshop was held in November to coordinate cover of the Summit on Administrative Excellence.
 - b. As part of our prevention program, we participated in three television programs with students of the Pontifical Catholic University, "Perfil" (Channel 40) and a Program Sponsored by the Association of Retired Government Employees, Inc., (Channel 64).
4. The task performed by the OCPR, has succeeded in having newspapers' editorials echo the demands for good use of public funds, daily and free publication in the newspaper "Primera Hora", on information on how to complain and other general topics of the Office.
5. An electronic Mail System has been established for the exclusive use of the media contratos_prensa@ocpr.gov.pr, to expedite delivery of audit reports.
6. In tune with our paper reduction policy (paper-less), we have three computers available in the library with the Internet access for our internal clients. In addition, when they request information from their auditing units, we send it through E-mail. The Library Section in Internet is updated frequently to inform users about material that has been newly added to the collection which promotes greater and better use of the Library.

Infrastructure

We continue our efforts to consolidate operations in order to be more efficient, which will have direct impact on the productivity of our personnel. Law No. 38 of January 10, 1999 empowers us to acquire, possess, use and dispose of immovable property to locate our offices. All our endeavors have not yet been successful in obtaining the resources needed, and make our precious goals a reality.

Total Quality Management Organization (TQM)

Seminars

The Office of the Comptroller has the firm belief that the road toward excellence is achieved through the implementation of the Total Quality Management Philosophy in all its operations. We have therefore



designed seminars directed to achieve cultural changes, statistic tolls and implementation methodology. This year, we offered the following seminars:

1. Basic Seminar on Total Quality offered to a group of 120 newly hired fellow-workers. All of our work force (100%) upholds this work philosophy and 51% are active participants of Continuous Process Improvement Teams.
2. A managerial Development Seminar was offered to 58 new supervisors.
3. A Six Sigma-Tools and Techniques seminar was offered to our Executive Committee, all Senior Auditors and Process Improvement Team Members (229 people).
4. Coordinators (21) were prepared to lead Process Improvement Teams.

In similar fashion, we have kept abreast on the best practices in international quality management issues by participating in the 56th Annual Congress on Quality sponsored by the American Society for Quality celebrated from May 20 to the 22nd at the Colorado Convention Center in Denver, Colorado. This opportunity strengthened our position as a world-class model for public administration and allowed us to exchange information and ideas with other members of the world's largest quality community.

Technical Stage and Continuous Improvement

We have made a strong commitment to identify existing processes in our organization and the variables so as to monitor behavior, measure progress, and control process procedures. As of June 30, 2002, we improved 51% percent of our processes or 120 processes of the 231 that have been identified in our organization.

During this year, quality evaluations were performed to determine if the approved recommendations to improve the processes analyzed had been implemented and the problems identified had been solved. As of June 30, 2002, six evaluations had been completed showing 81% of the recommendations (47) have been implemented.

Improved Processes

Examples of the efficiency obtained in some of the improved processes as a result of continuous improvements follow:

Process	Initial value	Value at June 30, 2002
Opinions on Legal Consultations Submitted by the Auditors	151.8 days	18.6 days
Requests of Contracts (1-5)	1665 min. (3.7) days	28.3 min.
Requests of Contracts (6 or more)	3015 min. (6 to 7) days	132.3 min. (2.2 hrs)



Process	Initial value	Value at June 30, 2002
Audits Supervision (Div. A, Complex)	642 days	332.2 days
Audits Supervision (CP Div.)	487.8 days	283.8 days
Revision of Audit Reports (Div. A, Simple)	146.4 days	30.5 days
Revision of Audit Reports (Div. B, Simple)	117.4 days	51.4 days
Revision of Audit Reports (Div. B, Complex)	253.8 days	123 days

As can be seen in the previous table, the efficiency of the processes depicted is truly outstanding. This enhancement is a result of the implementation of continued Process Improvement Methods and our commitment to this endeavor.

Publications

A TQM reference guide was published for the benefit of government officials.

Newsletter – *Quality comptrollership “Contraloría con Calidad”*

This is a quarterly Quality Newsletter published and distributed to communicate TQM activities and update our personnel on Quality Methodology. Fellow workers were kept informed at all time, thus enhancing their quality knowledge.

Measuring Environmental Quality

We administered two polls during this fiscal year. The first on August, 2001 and the second on February 2002. These polls were intended to measure the perception of fellow workers concerning the quality of the work environment and frequency in the use of the Ten Management Principles that are a strong part of the Total Quality Management Philosophy. The average of the eight polls administered since 1998 are: 3.55, 3.77, 3.94, 4.04, 3.98, 4.10, 4.09 and 4.13 respectively. These results demonstrate the almost continuous rise of these variables in the workplace and a consistent improvement of environmental quality.

Publishing Results of Measurements Through Conferences

On March 30, 2002, our Office, a recognized government leader in TQM strategies, offered a conference on this subject to the Municipality of Aguadilla. We utilized this opportunity to share the personal and professional experiences lived while implementing Total Quality Management.

During fiscal year 2002, we offered various half-day orientations to the different Divisions in our Office in order to reinforce the knowledge acquired in the Fundamental Seminar on Total Quality and to solidify the quality culture. We emphasized the importance of the latest technological developments in the planning, strategic management, and continuous improvement processes.



The Corrective Action Plan

The Corrective Action Plan (CAP) is a follow-up mechanism, that ensures compliance with the recommendations made by the Office in its audit reports. This program was implemented pursuant to the provisions of Law No. 9 supra, which allows the Comptroller, in the exercise of his authority, to adopt practices and procedures generally accepted in current auditing practices.

On May 6, 1988, the Governor of Puerto Rico issued Executive Order 5098D. This order requires that the chief executive of an audited unit implement the corrective actions in compliance with the Comptroller's recommendations. The Executive Order also requires the Office of Government Ethics to follow up on the findings included in the reports in order to identify any violation of Law No. 12 (July 2, 1985), known as the "Law on Government Ethics". In addition, on November 1, 1990, the Office approved Regulation No. 26 to implement the CAP. This regulation requires the Treasury Department, the Office of the Commissioner of Municipal Affairs (formerly the Administration of Municipal Services) and the Board of Directors of Public Corporations to verify that audited entities have complied with the CAP by implementing the recommended corrective measures within the corresponding time period.

The CAP also provides a mechanism to ensure that cases referred by this Office to the Department of Justice are given proper attention. An agreement with the Secretary of Justice requires that twice a year, this Department inform the Comptroller of the status of the cases referred.

On June 13, 1998, the Governor issued Administrative Bulletin Number E-1998-16, superseding Executive Order 5098D. As a result, the Office promulgated a new Regulation No. 26, effective July 1, 1998.

Accordingly, beginning with fiscal year 1998-99, all government entities have 90 days to submit the CAP. The 90 days allowed begin on the first day of the month following the publication of the audit report. The 90-day time span to submit complementary reports begin on the first day of the month following the CAP or a previous complementary report. All government entities are encouraged to delegate responsibility for the CAP on the internal audit units.

By June 30, 2002, the Comptroller's Office had received and evaluated 730 CAPs to ascertain compliance with the recommendations contained in the audit reports. This figure includes initial CAPs and subsequent progress reports. During the fiscal year 2000-01 the Office received and evaluated 735 CAPs.

The Administrative Bulletin supra and Regulation No. 26 state that government entities should apply the same procedures applicable to the Comptroller's audit report recommendations contained in the external auditor's management letters. If, upon due consideration, the agency heads determine that the recommendations of the external auditors cannot be adopted, and such determination is appropriately documented and sustained, the Comptroller may excuse them from compliance.

The entire operation of the corrective action program continues to be reviewed, since we are looking for optimum efficiency in the follow-up process, in order to increase compliance with the recommendations and to develop quicker and accurate statistical data.



Public Registry on Contracts of Government Agencies and Municipalities

According to Law No. 18 of October 30, 1975, as amended by Law No. 17 of November 29, 1990, government agencies, including public corporations and municipalities are required to maintain a registry of all the contracts and deeds, including subsequent amendments thereto. Additionally, they have to submit a copy of the contracts, deeds and amendments to the Office within 15 consecutive days from the date of execution or within 30 consecutive days if the contract is executed outside of Puerto Rico. Exceptions to this requirement are set forth in the statute and Regulation No. 33 issued by the Comptroller on February 27, 1998.

The Office maintains a registry and a file for every contract received and uses the Registry for verification purposes as part of its oversight role. The Registry is accessible to the public via Internet. Interested parties may request copies of these contracts. A nominal fee is required for each copy. The Office received 4,657 requests for copies during fiscal year 2001-02.

The information system related to the Registry of Government Contracts established in 1990-91 has proven to be an efficient research tool related to contracts executed by government entities. This System has a search feature which allows for the retrieval of information using various references, fields, or clues such as: social security number, name of the contractor, or type of contract. Furthermore, the system is capable of furnishing elaborate statistical information regarding the types of contracts most frequently executed by an agency or group of agencies, the number of agencies that are late in submitting contracts, the agencies that submit contracts with erroneous information, and those that belatedly submit corrected information after receiving our observations. The Office received 102,910 and 80,445 contracts during fiscal years 2001-02 and 2000-01, respectively.

Registry of Irregularities Related to Public Funds and Property Reported by Government Entities

We instituted a computerized registry system during the period of 1994-95 in order to record the information received from the various government entities regarding the loss of public funds and property. This computerized system was established in compliance with the provisions of Law No. 96 of June 26, 1964, as amended. The system's primary function is to collect and store data, which could facilitate our fiscal responsibility. This information is also provided to the Treasury Department and Justice Department as prescribed by law.

In compliance with the requirements of Law No. 96, supra, during fiscal year 2001-02, our Office received information on 2,971 cases totaling \$3,937,882. These cases are subject to further examination when the corresponding government entities are audited.



Recognitions

This year we commemorate the 50th Anniversary of the creation of the Office of the Comptroller (1952-2002). On account of this anniversary and during the First Summit on Administrative Excellence held on February 6, 2002, the Governor of Puerto Rico, the Honorable Sila M. Calderón, signed the Proclamation of the Day and Month of the Administrative Excellence. The great mission of supervision and prevention that this Office performs is recognized therein.

On November 30, 2001, the Metropolitan University of Aguadilla, granted an acknowledgement to the Office of the Comptroller, for its excellent contribution to the Public Forum on Government and Entrepreneurs Ethics.

Likewise, on June 29, 2002, during its annual assembly, the Ponce Chapter of the Puerto Rico Society of Certified Public Accountants publicly exalted and conferred an acknowledgement to the Office of the Comptroller for the excellent and extraordinary work it performs in the best interest of the people of Puerto Rico.

United Funds recognized the public employees of the Comptroller's Office, through its 2001-2002 campaign to collect funds and grants the Golden Award for the highest contribution made by government employees and for having surpassed the proposed goal.

Result of Operations

Budget

The original budget assigned to the Office for fiscal year 2001-02 was \$31,081,000, plus an additional appropriation of \$750,000 for a total of \$31,831,000. On June 30, 2002 the Treasury Department of Puerto Rico reimbursed \$697,452 for payroll and related costs due to a salary increase to public employees of the Commonwealth of Puerto Rico. This action increased the budget to \$32,528,452, a 16% increase over the budget assigned for the previous fiscal year. The Office spent and encumbered \$31,458,026, leaving a balance not reserved of \$1,070,426. This balance is available for non recurring expenses for a three-year period according to Law No. 230 of July 23, 1974, as amended, known as the Puerto Rico Government Accounting Act. Specific information is presented in the Statistical Section of this report. (See Chart 1)

Reports Issued

During fiscal year 2001-02, our Office issued 179 reports. These reports involved audits that revealed administrative deficiencies, irregularities or illegal acts in the transactions involving public funds and property. By June 30, 2002, the aforementioned reports were sent to the Governor, the President of the Senate, and the Speaker of the House of Representatives. (See Chart 2 and 3)



Eighty-nine percent (89%) of the reports (159) were issued during fiscal year 2001-02; less than a year after fieldwork was concluded. The remaining eleven percent (11%) of the reports (20) took more than a year after completion of the fieldwork.

Human Resources

As of June 30, 2002 the Office had 596 occupied positions, or 97% out of 612 authorized positions. Four hundred twenty-three 423 (71%) were auditors and 173 (29%) were support personnel. Support personnel consists of legal counsels, administrative staff, and other professionals. (See Chart 4) During 2001-02, 15 auditors and 11 support personnel resigned or retired, while 85 auditors and 26 support personnel were hired. In addition, the Office hired 11 temporary employees, 7 of which participated in the Summer Internship Program. A grand total of 1,074,326 hours were dedicated to audits, administrative and office work, training, compensated absences, and other activities. (See Chart 5)

Training

The Office has established an internal regulation that requires support personnel a minimum of 24 hours of continued education annually. Auditors are required a minimum of 40 hours per year, 24 of which have to be in areas related to the profession. In case of the Auditors of the information Technology Audit Division, 20 hours has to be in computer information system.

During 2001-02, 48,884 hours (5%) were dedicated to training and education. Seminars and conferences in auditing, TQM and recent development in Information Technology have been a priority. The Office continues to train its personnel in detecting and preventing corruption. Therefore, we offered a four-day training with the participation of the Association of Certified Fraud Examiners as instructors.

We have relocated our Professional Development Center to serve our personnel more efficiently and improve the conference rooms to attain the highest level of excellence in our training programs.

Financial Information

Internal Controls

The Office is responsible for establishing and maintaining an internal control structure designed to ensure that its assets are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow for the presentation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that, (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and sound management judgment by administrators.



An Audit Committee was created to strengthen the independence, integrity, and trust of the Office's internal auditing activity and the transparency in its fiscal processes and transactions. The members of the Committee are distinguished professionals in the private sector and can not be officials, employees or personnel under contract with the Office.

Budgetary Controls

The Office maintains an encumbrance accounting system to accomplish budgetary controls. As demonstrated by the financial statements and schedules included in the financial section of this report, the management of the Office continues to meet its responsibility for sound financial administration, following the norms of austerity and modesty.

Independent Audit

An independent certified public accounting firm conducted an audit of the financial statements of the Office. The independent accounting firm of Ernst & Young LLP, performed the audit for the fiscal year ending June 30, 2002.

The report of Independent Auditors on the financial statements of the Office is included in the financial section.

Financial Reporting

The Office complies with financial reporting requirements.

We count on your cooperation to improve the oversight function and administration of public funds and property.

Respectfully submitted,

Manuel Díaz Saldaña
Comptroller



Principal Officers

Comprehensive Annual Financial Report



Justo Nieves Torres
1961-1971

"Although governments are not created for the purpose of obtaining profits, the financial operations should be carried out based on the same principles of rendering more and better services to the general community. We could, therefore, conclude that both private enterprises and governments have the same goal, the former to benefit their owners and the second for the benefit of the whole country."

Comptrollership at your service...



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OFFICE OF THE COMPTROLLER
PRINCIPAL OFFICERS AS OF
JUNE 30, 2002

MANUEL DÍAZ SALDAÑA, CPA, CFE
Comptroller

HERIBERTO COLÓN ACEVEDO, CFE
Deputy Comptroller

ALIDA GUZMÁN RIVERA, CGFM
Assistant Comptroller
Strategic Planning, TQM,
and Administration Area

ALFONSO M. CHRISTIAN CANCEL, ESQ.
Assistant Comptroller
Legal Affairs Area

ALFREDO COLÓN ARCHILLA, ESQ.
Assistant Comptroller
Anti-Corruption Strategies Area

ALINA TORRES MARRERO, CFE
Special Aide
Peer Review

WILDA L. RODRÍGUEZ RIVERA, CFE
Internal Audit Director

LISANDRA RIVERA
Press Officer

AUDIT DIRECTORS

NILSA M. CLAS MIRANDA, CFE
Director, Audit Division "A"
Department and Agencies

ORLANDO CALDERÓN SERRANO, CFE
Director, Audit Division "B"
Department and Agencies

MADELINE SANTOS COLÓN, CFE
Director, Audit Division "E"
Department and Agencies

LOURDES DÍAZ VALCÁRCEL, CFE
Director, Information Technology
Audit Division

CARLOS O. RIVERA GONZÁLEZ, CFE
Director, Municipalities
Audit Division

JOSÉ M ROMÁN, CFE
Director, Public Corporations
Audit Division

SUPPORT DIRECTORS

NILSA T. AÑESES LOPERENA, ESQ.
Director, Assistance in Litigation
and Forensic Audits Division (DALAF)

LUIS A. TRINIDAD MÁZ, CFE
Director, External Orientation
and Special Activities Center

MARÍA BETANCOURT CABRET, MBA
Director, Finance and General Services Division

LILLIAN SÁNCHEZ PÉREZ
Director, Human Capital Division

HELVIA MAYORAL AMY
Director, Information Division

RAFAEL GUSTAVO PÉREZ, MBA, CISSP
Director, Information Systems Division

AIDA L. MARTÍNEZ MAYSONET, ESQ.
Director, Legal Division

EDGARDO CASTRO RIVERA, CFE
Director, Professional Development Training Center



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Organizational Charts

Comprehensive Annual Financial Report



Basilio Santiago Romero

Basilio Santiago Romero
1971-1977

"Fortunately, and for the benefit of the people of Puerto Rico, the auditors of our Office follow modern audit norms. By so doing, a fraud of great proportions against the people of Puerto Rico was discovered, in the building of classrooms and other constructions, such as roads, bridges and public town squares."

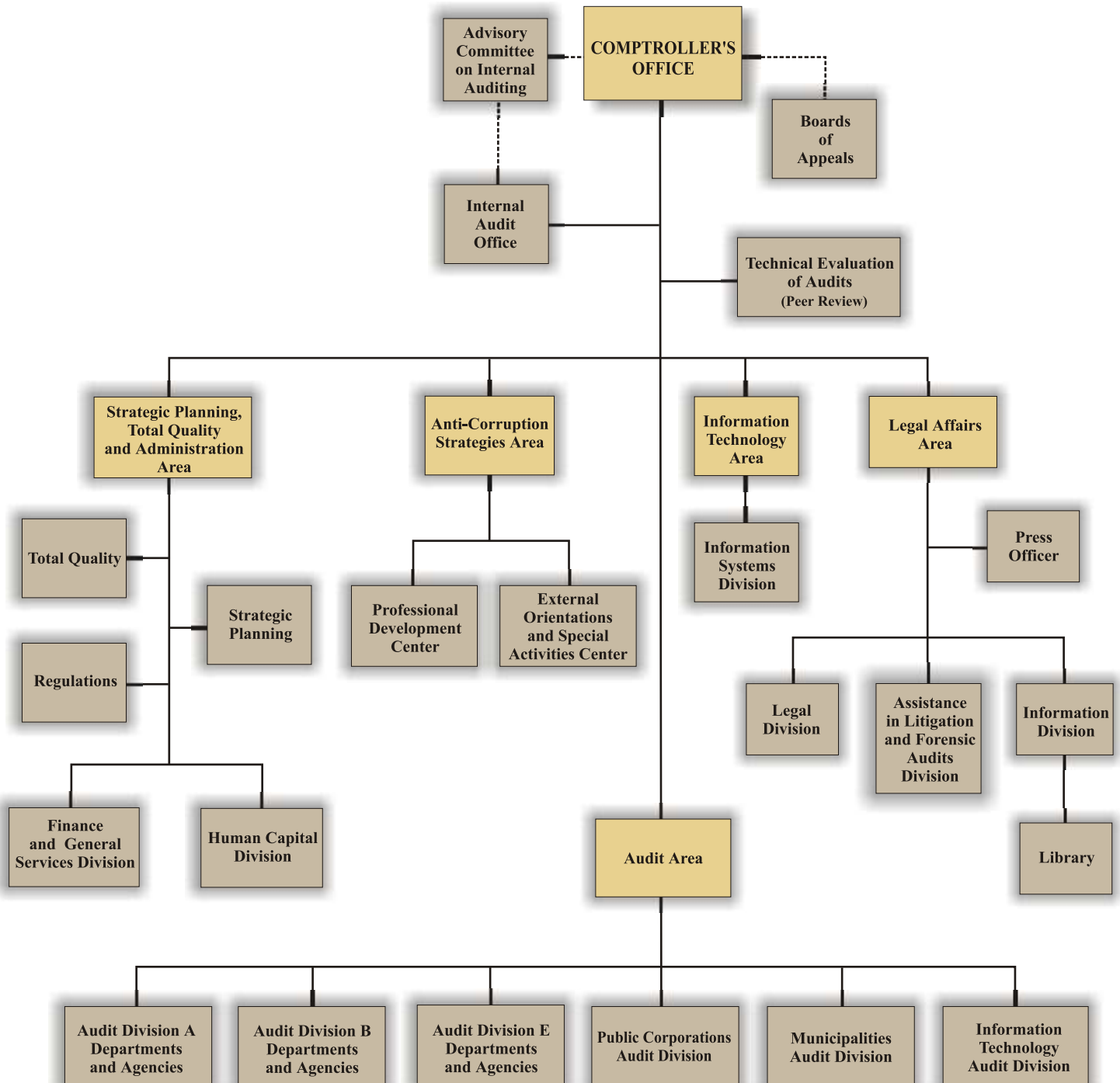
Comptrollership at your service...



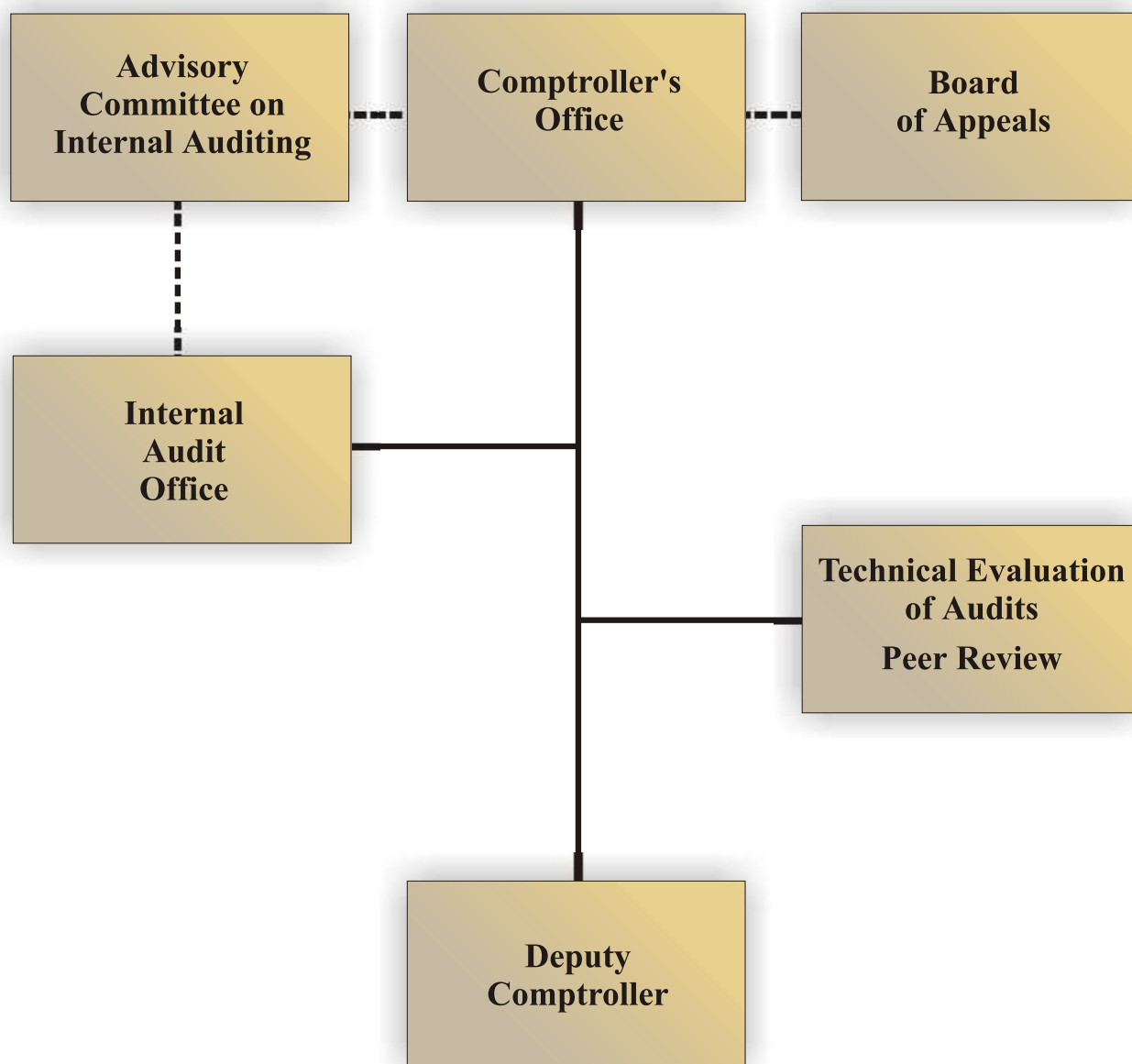
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ORGANIZATIONAL CHART

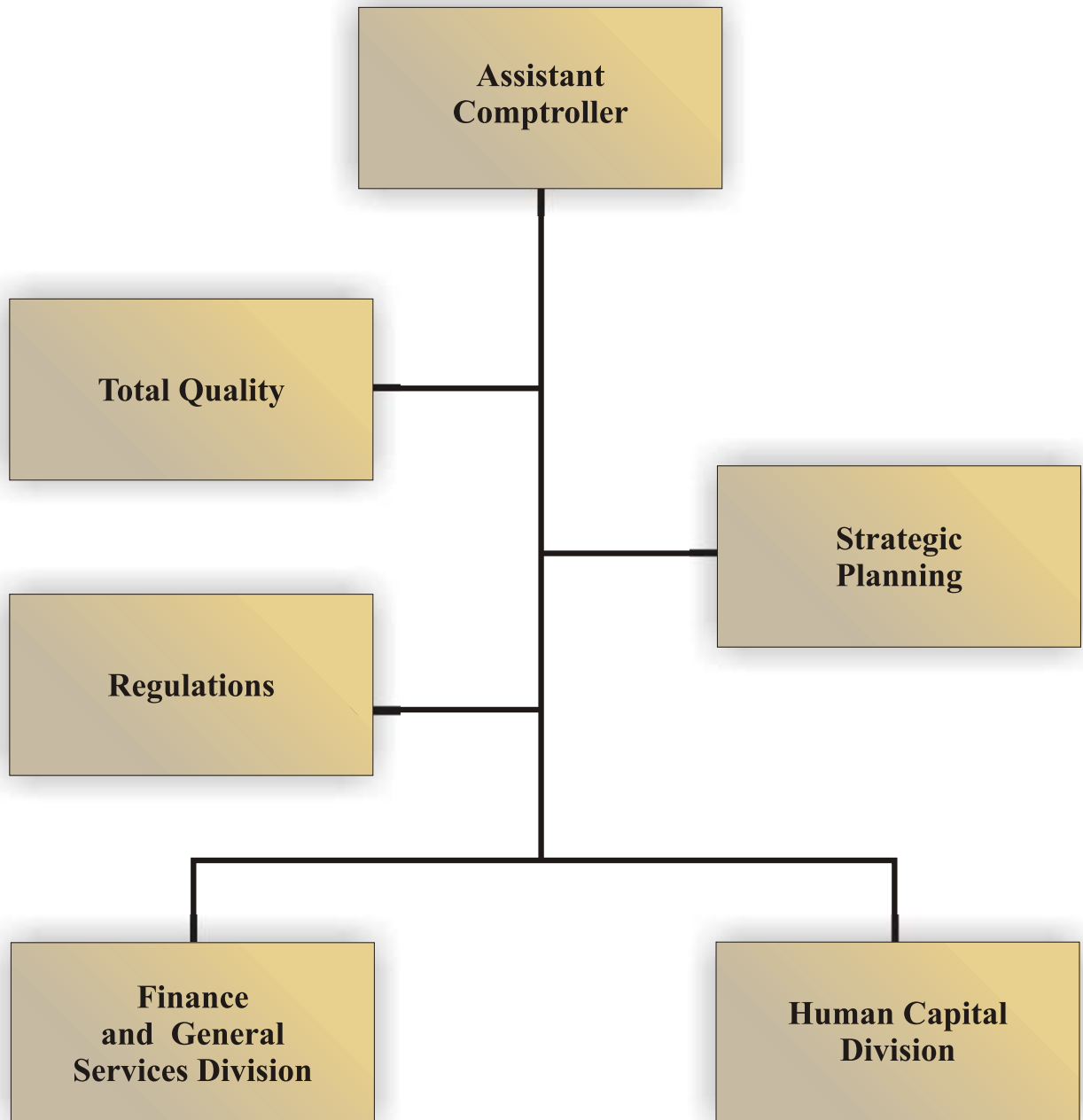


COMPTROLLER'S OFFICE

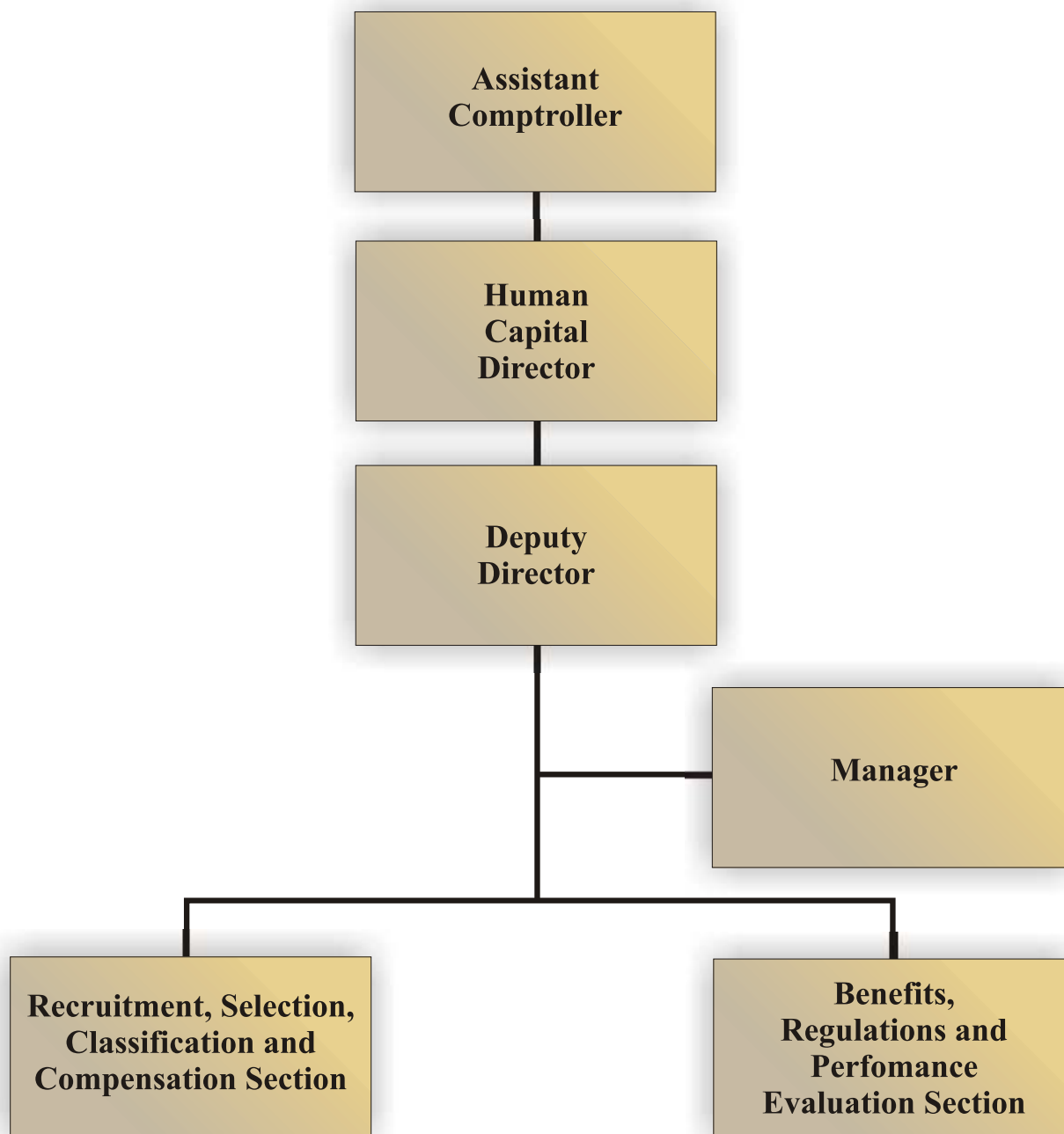




STRATEGIC PLANNING, TOTAL QUALITY AND ADMINISTRATION AREA

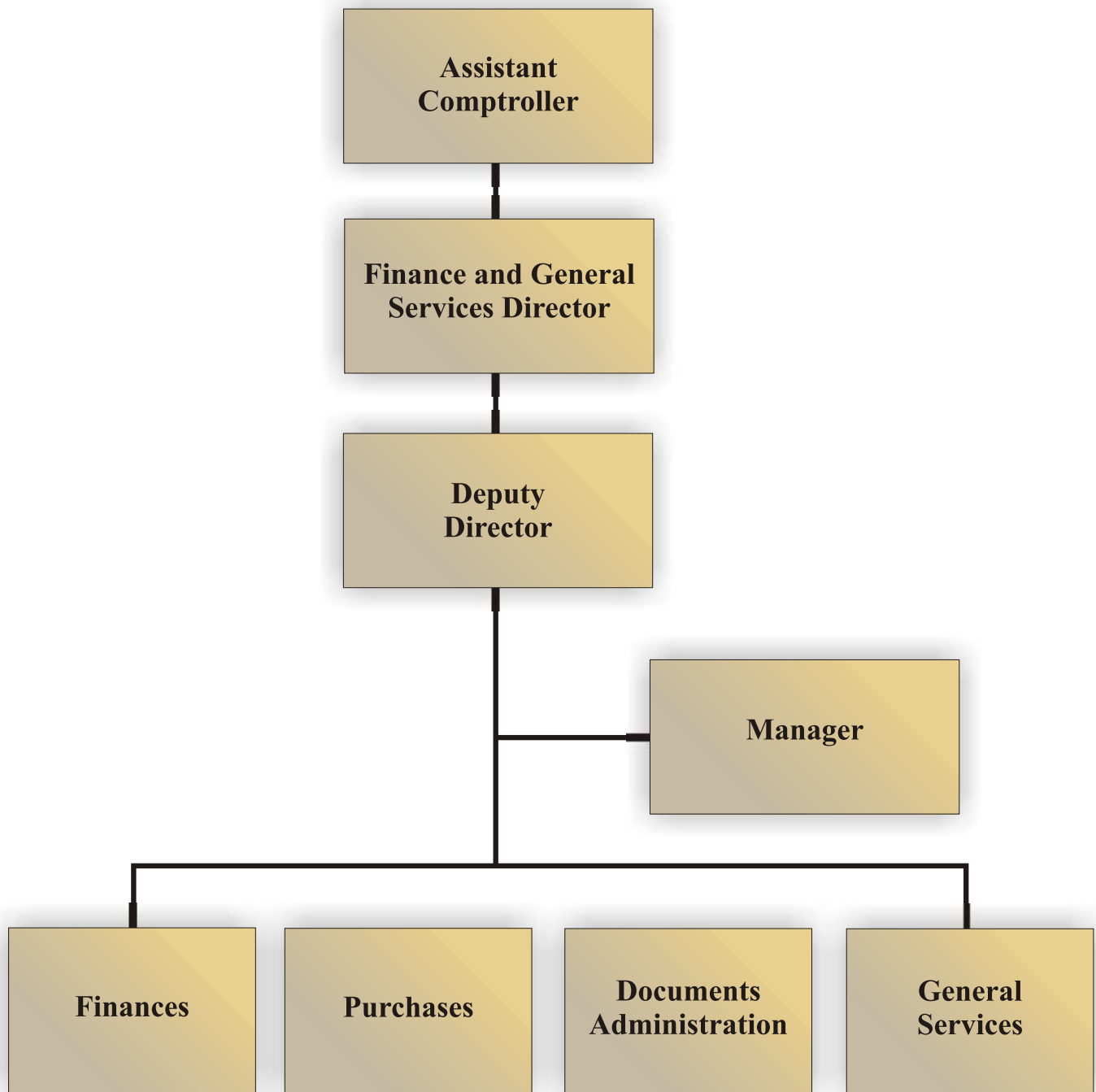


**STRATEGIC PLANNING, TOTAL QUALITY
AND ADMINISTRATION AREA
HUMAN CAPITAL DIVISION**



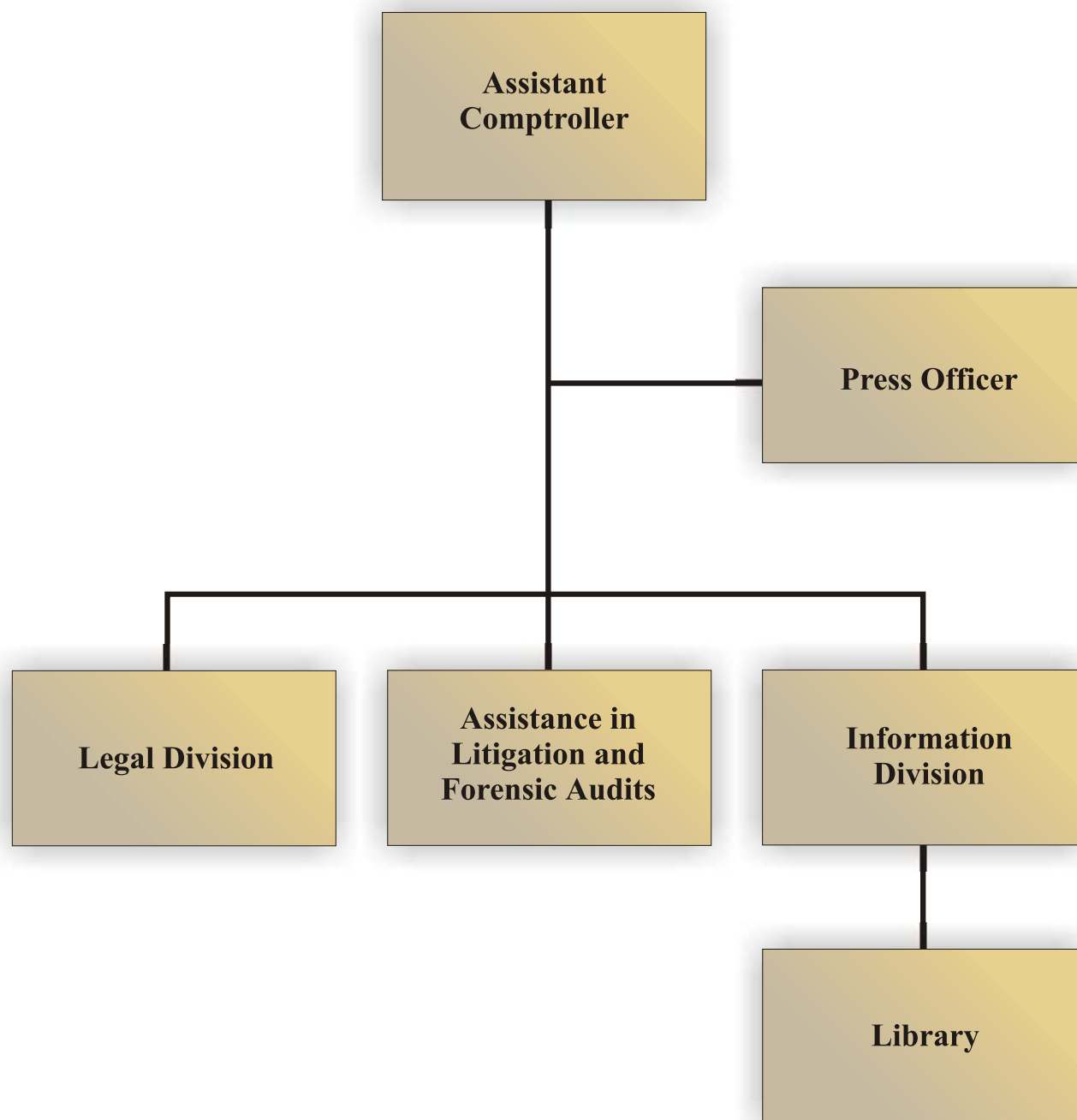


STRATEGIC PLANNING, TOTAL QUALITY
AND ADMINISTRATION AREA
FINANCE AND GENERAL SERVICES DIVISION



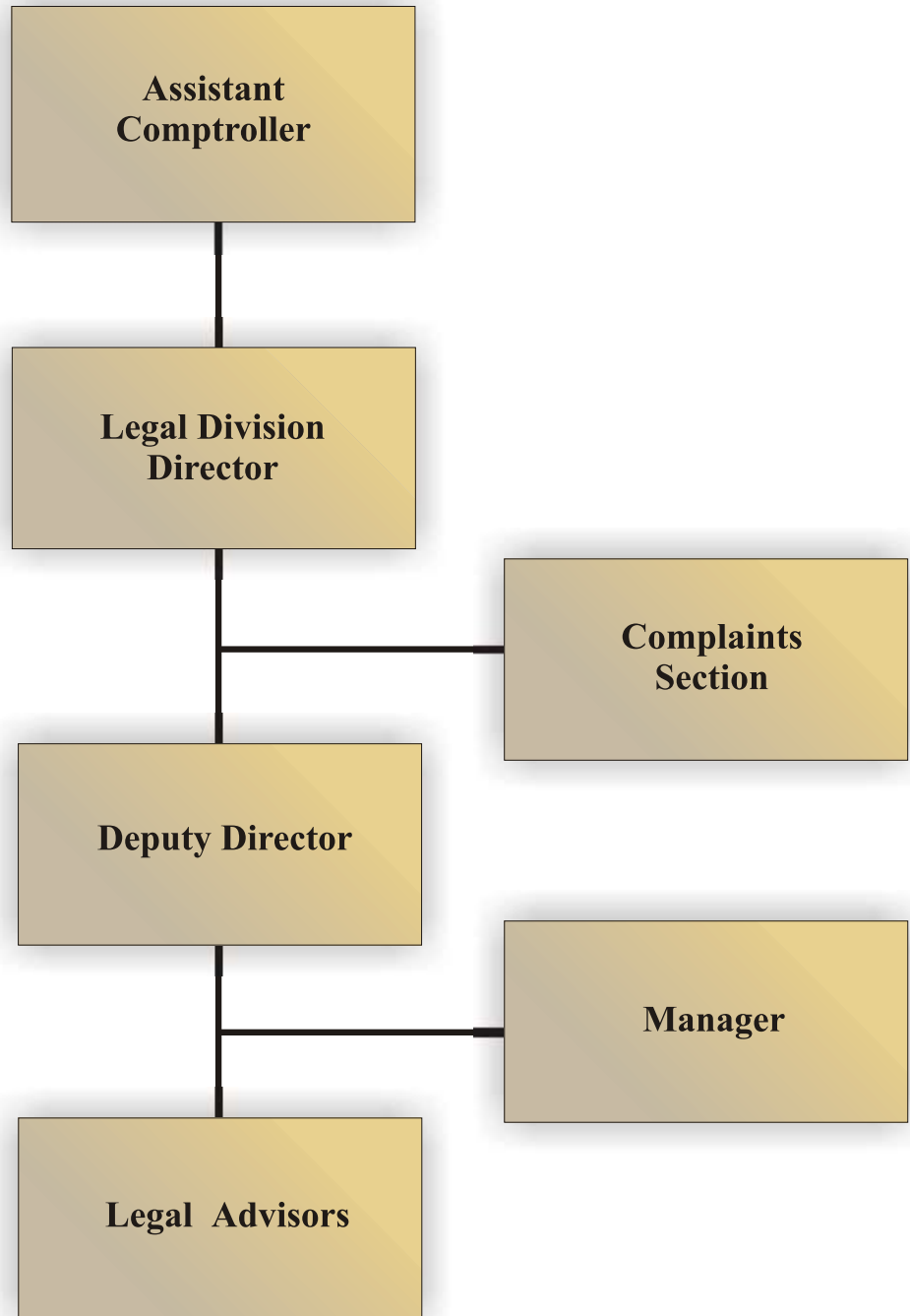


LEGAL AFFAIRS AREA



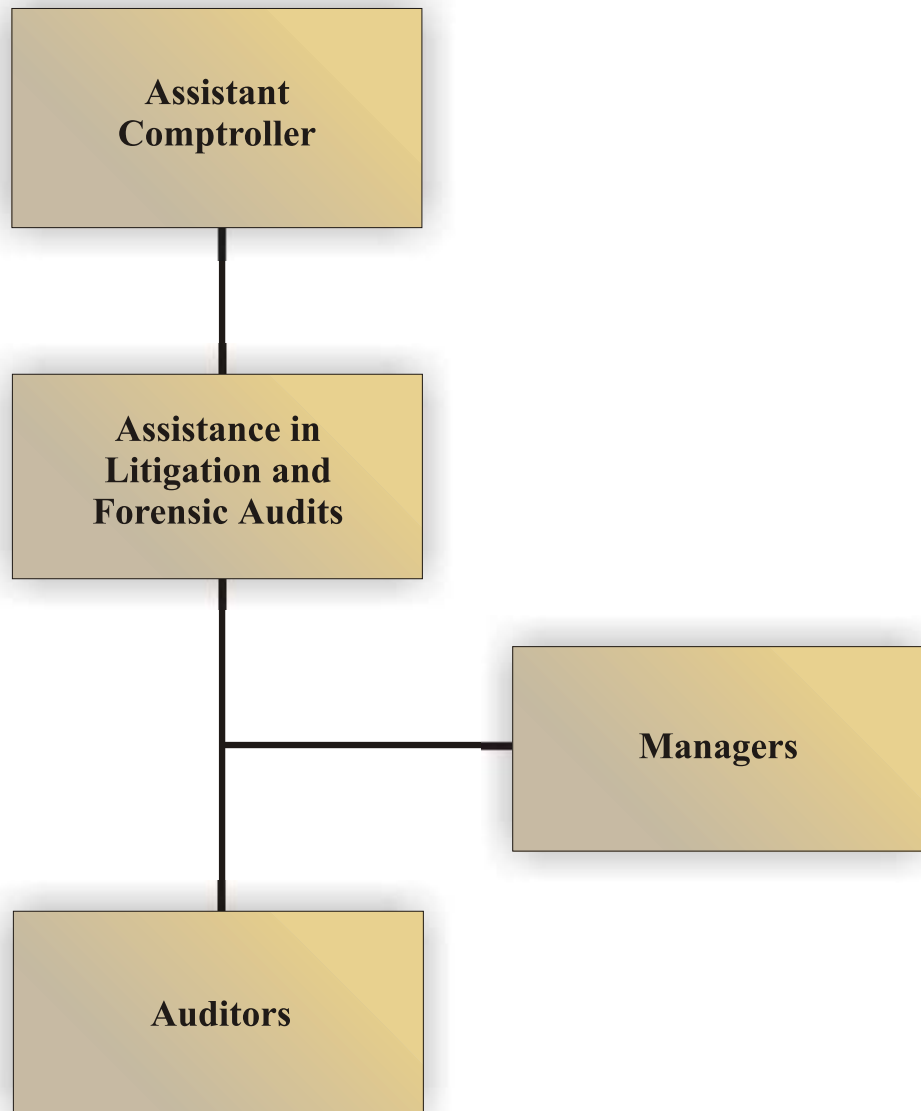


**LEGAL AFFAIRS AREA
LEGAL DIVISION**



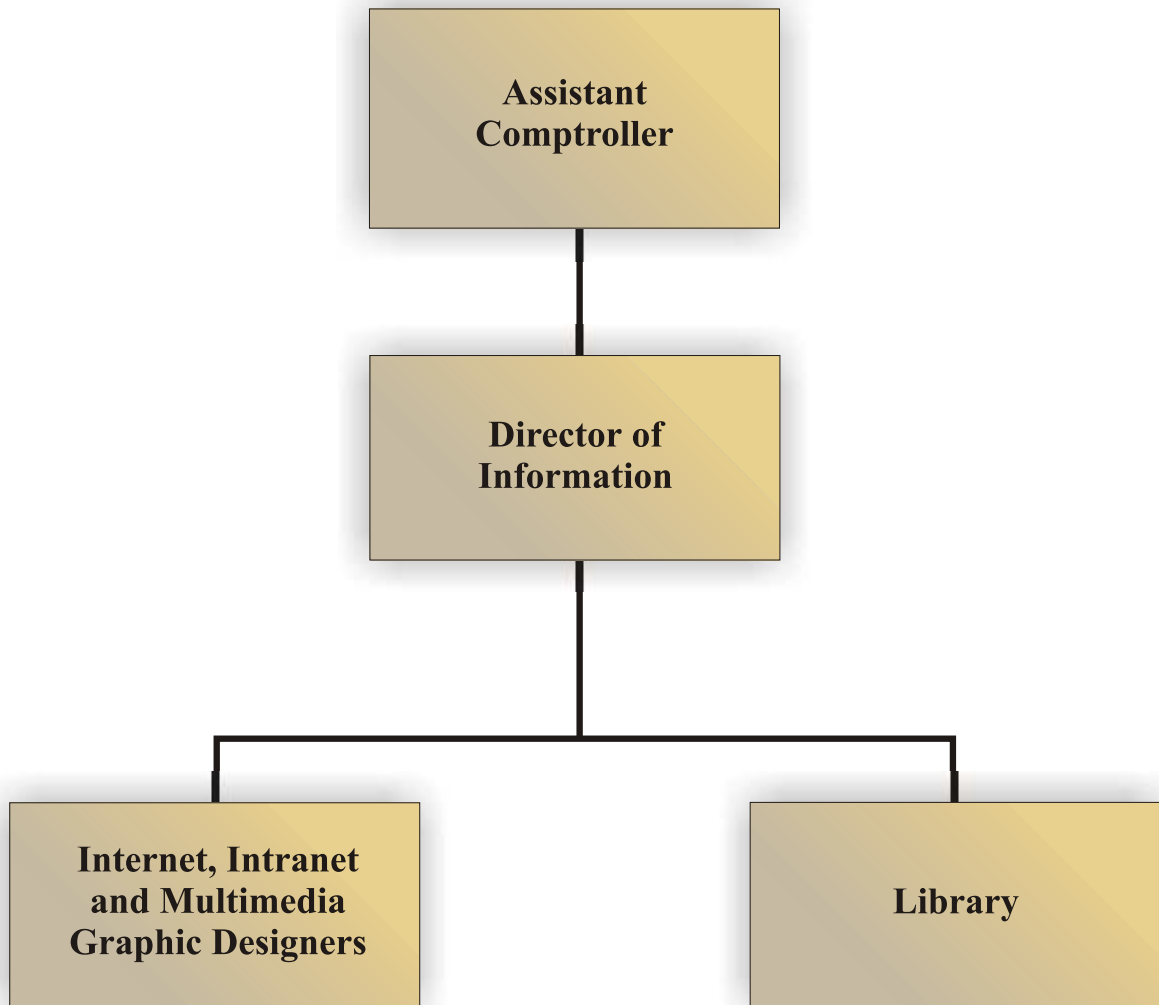


**LEGAL AFFAIRS AREA
ASSISTANCE IN LITIGATION AND
FORENSIC AUDITS DIVISION**



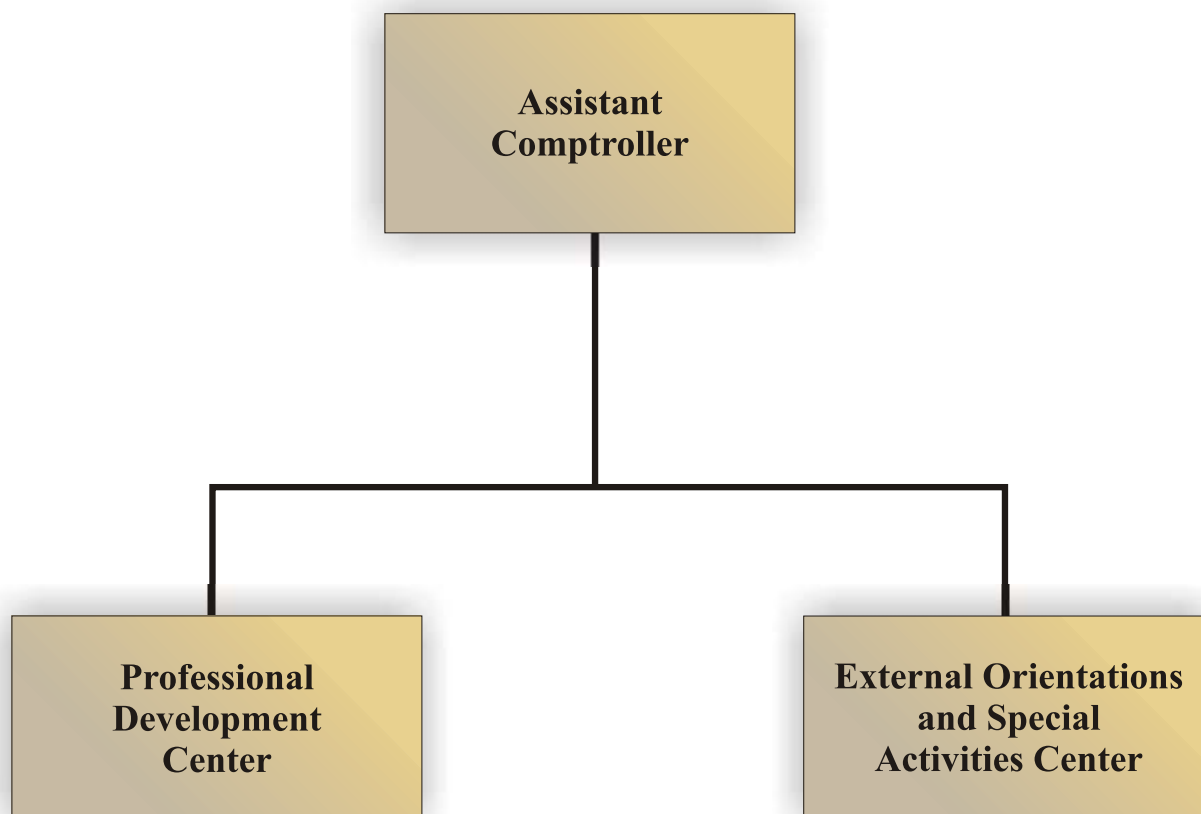


**LEGAL AFFAIRS AREA
INFORMATION DIVISION**



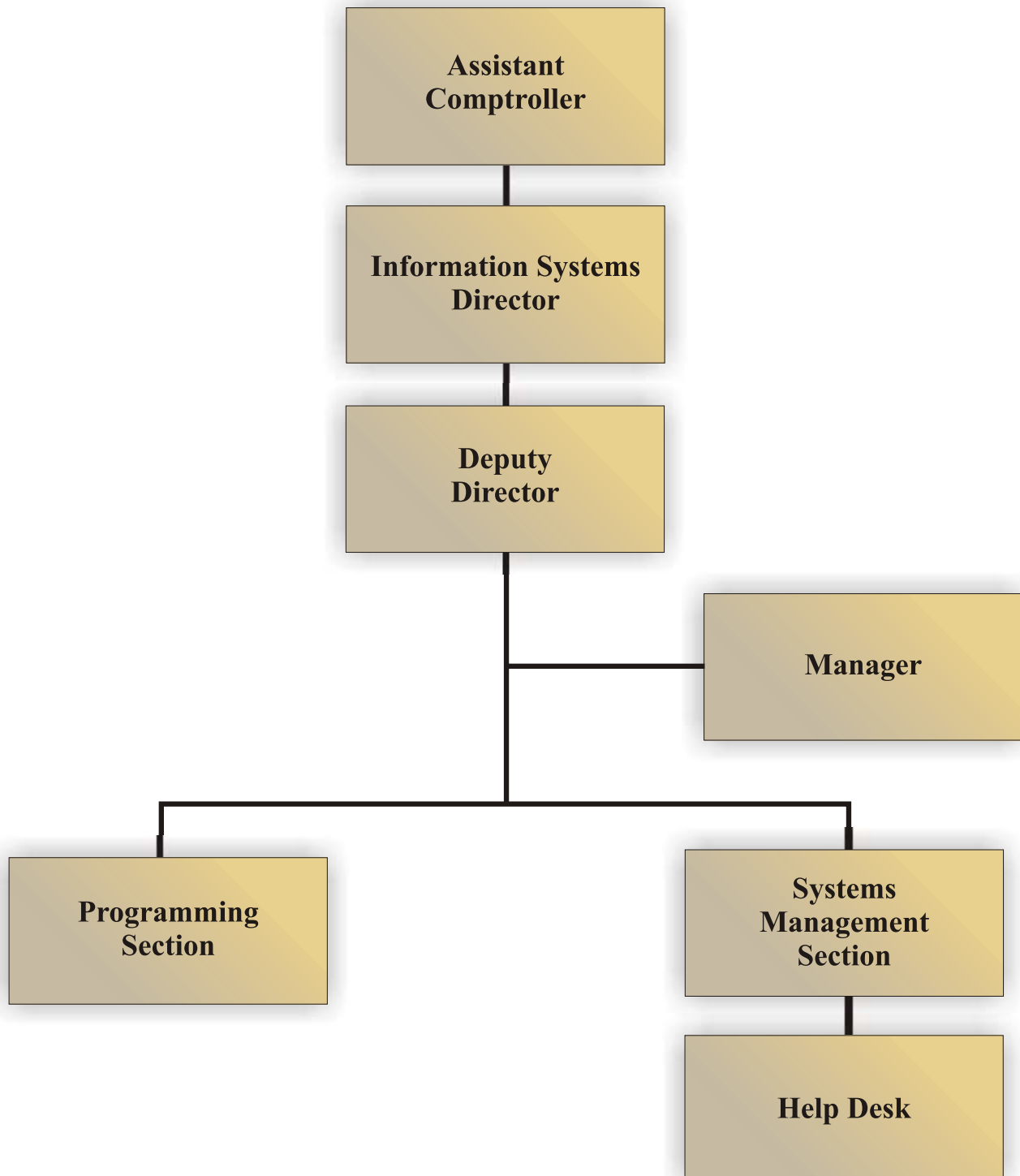


ANTI-CORRUPTION STRATEGIES AREA



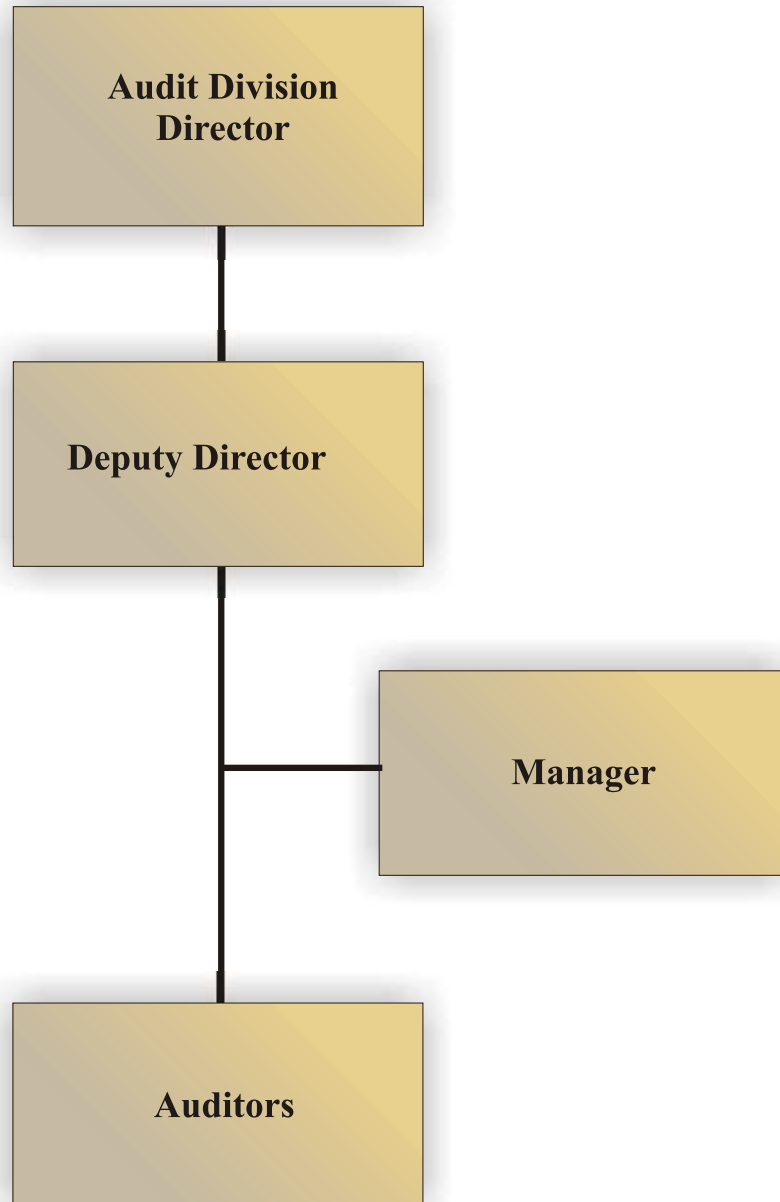


**INFORMATION TECHNOLOGY AREA
INFORMATION SYSTEMS DIVISION**





AUDIT AREA AUDIT DIVISIONS





Financial Section

Comprehensive Annual Financial Report



Ramón Rivera Marrero
1978-1986

"I tried to make the fairest and most impartial decisions for the well-being of those whom we serve, at all times while performing my work. Thankfully, the people of Puerto Rico has thus recognized it and has reciprocated by granting their support and trust to us."

"This significant support on the part of the people has been achieved because we have all arduously worked together to serve it. We have thus enhanced the image of public service and of the Office of the Comptroller of Puerto Rico."

"The people of Puerto Rico was my boss. And one responds to the people."

Comptrollership at your service...



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Report of Independent Auditors

Hon. Manuel Díaz Saldaña, Comptroller
Commonwealth of Puerto Rico
Office of the Comptroller of Puerto Rico

We have audited the accompanying financial statements of the governmental activities and general fund of the Office of the Comptroller of Puerto Rico (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico, as of June 30, 2002, which collectively comprise the Office basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the Office of the Comptroller of Puerto Rico and are not intended to present fairly the financial position of the Commonwealth of Puerto Rico and the results of its operations in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Office of the Comptroller of Puerto Rico as of June 30, 2002, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis on pages 3 through 5, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1 to the financial statements, effective July 1, 2001, the Office changed its accounting policy related to financial statement presentation to comply with the provisions of GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government.*"

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2002, on our consideration of the Office of the Comptroller's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst & Young LLP

August 31, 2002

Stamp No. 1825893
affixed to
original of
this report.

Management's Discussion and Analysis

The Office of the Comptroller of Puerto Rico, an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico, offers to the readers of the financial statements this narrative overview and analysis of the financial activities of the Office of the Comptroller for the fiscal year ended June 30, 2002.

Financial Highlights

- The total liabilities of the Office of the Comptroller at the close of the fiscal year ended June 30, 2002 amounted to \$5,911,326 comprised of the accrual required under GASB No. 34 for vacations and sick leave in the amount of \$5,312,891 and \$598,435 due to creditors. The liabilities exceeded its assets by \$1,588,629 (*net deficiency in assets*) principally due to the aforesaid accrual for vacations and sick leave. The Office of the Comptroller has the resources to meet its ongoing obligations, and the liabilities for accrued vacations and sick leave will be met with revenues from legislative appropriations in future years as these liabilities become due.
- The Office of the Comptroller's total net change in assets decreased by \$797,980. The total amount of this decrease is attributable to depreciation expense reported for the fiscal year ended June 30, 2002.
- The final Budget of the Office of the Comptroller of Puerto Rico for the fiscal year 2001-2002 is \$32,528,452. The initial budget of \$31,081,000 increased during the fiscal year by \$1,447,452. The increase corresponds to the sum of additional appropriations assigned during the fiscal year (\$750,000) and of the amounts reimbursed by the Treasury Department for the previous year Christmas Bonus (\$69,000), and the granted increase in the salaries of the public employees, according to Law No. 169 of July 20, 2002 (\$628,452).

Overview of the Financial Statements

This Management's Discussion and Analysis document is intended to serve as an introduction to the Office of the Comptroller's basic financial statements. The Office of the Comptroller's basic financial statements comprises three components: 1) government-wide financial statements on all of the activities of the Office, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the Office of the Comptroller's financial position, in a manner similar to a private-sector business.

The *statement of net assets* presents information of all of the Office of the Comptroller's assets and liabilities, with the difference between the two reported as *net assets (net deficiency in assets)*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Office of the Comptroller is improving or deteriorating as a result of the year's operations.

The statement of activities presents information showing how the Office of the Comptroller's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash*

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Office of the Comptroller that are supported by legislative assessments from the General Fund of the Commonwealth of Puerto Rico (*government activities*). The Comptroller of Puerto Rico has the constitutional duty to oversee all revenues, accounts and disbursements of the Commonwealth of Puerto Rico and to ascertain that all operations involving public funds and public property are performed according to applicable laws and regulations. This authority arises from Section 22, Article III of the Constitution of the Commonwealth of Puerto Rico, and from the Public Law that created the Office of the Comptroller of Puerto Rico, Act No. 9 of July 24, 1952, as amended.

The government-wide financial statements of the Office of the Comptroller's finances can be found on pages 6 to 8 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Office of the Comptroller, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office of the Comptroller belong to categories of governmental funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of expendable resources*, as well on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in funds balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Office of the Comptroller maintains one individual governmental fund. We adopt an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43 to 50 of this report.

Financial Analysis of the Government's Funds

As noted earlier, the Office of the Comptroller uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

Capital Assets: The capital assets of the Office of the Comptroller are those assets that are used in the performance of its functions. The investment in capital assets for the fiscal year ended June 30, 2002, amounts to \$926,422. The total invested in the Office of the Comptroller's capital assets for the fiscal year was three percent of the assigned budget.

Major capital asset events during the current fiscal year included the following:

- The acquisition of several computer equipments for \$438,086.

Requests for Information

This financial report is designed to provide a general overview of the Office of the Comptroller's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and General Services Division, Office of the Comptroller of Puerto Rico, PO Box 366069, San Juan Puerto Rico 00936 6069.

Office of the Comptroller of Puerto Rico
Governmental Fund Balance Sheet/Statement of Net Deficiency in Assets
June 30, 2002

	General Fund	Adjustments (Note 2)	Statement of Net Deficiency in Assets
Assets			
Current assets:			
Cash and cash equivalents	\$2,553,738	\$ -	\$ 2,553,738
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	1,768,959	1,768,959
Total assets	\$2,553,738	\$ 1,768,959	\$ 4,322,697
Liabilities			
Current liabilities:			
Accounts payable and other current liabilities	\$ 598,435	\$ -	\$ 598,435
Accrued vacations and sick leave	-	2,247,044	2,247,044
Total current liabilities	598,435	2,247,044	2,845,479
Accrued vacations and sick leave	-	3,065,847	3,065,847
Total liabilities	598,435	5,312,891	5,911,326
Fund balance/Net deficiency in assets			
Fund balance:			
Reserved for encumbrances	430,202	(430,202)	-
Unreserved	1,525,101	(1,525,101)	-
Total fund balance	1,955,303	(1,955,303)	-
Total liabilities and fund balance	\$2,553,738		
Net deficiency in assets:			
Invested in capital assets, net of accumulated depreciation		1,768,959	1,768,959
Deficit		(3,357,588)	(3,357,588)
Total net deficiency in assets		(1,588,629)	(1,588,629)
Total liabilities and net deficiency in assets		\$ 1,768,959	\$ 4,322,697

See accompanying notes.

Office of the Comptroller of Puerto Rico
Statement of Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance/Statement of Activities
Year ended June 30, 2002

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Activities</u>
Revenues			
Legislative appropriations	\$32,528,452	\$ -	\$32,582,452
Expenditures			
Salaries and payroll related expenditures	24,415,025	-	24,415,025
Professional services	2,535,625	-	2,535,625
Meals, travel, materials and supplies	1,678,528	-	1,678,520
Utilities	1,524,697	-	1,524,697
Other	1,509,243	-	1,509,243
Depreciation expense	-	797,980	797,980
Total expenditures	<u>31,663,118</u>	<u>797,980</u>	<u>32,461,098</u>
Net change in fund balance/net change in assets	<u>865,334</u>	<u>(797,980)</u>	<u>67,354</u>
Fund balance/Net assets			
Beginning of year, as previously reported	-	-	-
Adjustments for cumulative effect of prior years of applying retroactively the GASB Statement No. 34 (Note 1)	<u>1,089,969</u>	<u>(2,745,952)</u>	<u>(1,655,983)</u>
Beginning of year, as adjusted	<u>1,089,969</u>	<u>(2,745,952)</u>	<u>(1,655,983)</u>
End of year	<u>\$ 1,955,303</u>	<u>\$(3,543,932)</u>	<u>\$ (1,588,629)</u>

See accompanying notes.

Office of the Comptroller of Puerto Rico
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual

General Fund

June 30, 2002

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Legislative appropriations	\$31,081,000	\$32,528,452	\$32,528,452	\$ -
Expenditures				
Salaries and marginal benefits	23,105,000	25,156,452	24,368,559	787,893
Professional services	1,483,000	2,487,105	2,452,068	35,037
Meals, travel, materials and supplies	1,958,000	1,817,466	1,690,124	127,342
Utilities	2,317,000	1,567,000	1,526,649	40,351
Other	2,218,000	1,500,429	1,420,626	79,803
	<u>\$31,081,000</u>	<u>\$32,528,452</u>	<u>\$31,458,026</u>	<u>\$1,070,426</u>
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,070,426	\$1,070,426
Fund balance				
Beginning of year	-	-	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,070,426</u>	<u>\$1,070,426</u>

See accompanying notes.

Office of the Comptroller of Puerto Rico

Notes to Financial Statements

June 30, 2002

1. Organization and Summary of Significant Accounting Policies

Organization

The position of Comptroller of Puerto Rico was created by the Constitution of the Commonwealth of Puerto Rico. The Office of the Comptroller of Puerto Rico (the Office) was created by Law 9 of 1952. This Office is directed by a Comptroller, who is named for a term of ten years. The function of the Comptroller is to audit all the revenues, accounts and expenditures of the Commonwealth of Puerto Rico (the Commonwealth), its agencies and instrumentalities, and its municipalities, in order to determine if they have been made in conformity with the law, and to submit the corresponding audit reports. Also, it submits annual reports and all other special reports that are required by the Legislative Assembly or the Governor.

Financial Reporting Entity

The Office is an entity of the Commonwealth, assigned to the Legislative Branch. For financial statement purposes, it is treated as a separate accounting entity. The Department of the Treasury of the Commonwealth serves as a trustee of the funds assigned to the Office by the Legislative Branch.

The administration of the Office is autonomous and is under the responsibility of the Comptroller of the Commonwealth, who is named by the Governor of Puerto Rico, with the consent of the Legislative Assembly.

Summary of Significant Accounting Policies

New Accounting Pronouncement

The Office adopted the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34), GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" (GASB No. 37) and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" (GASB No. 38) effective July 1, 2001. GASB No. 34 established financial and reporting standards for all state and local governments and related entities. The most significant effects of the adoption of GASB No. 34 relates to the inclusion of the statement of net assets and the statement of activities, the inclusion of capital assets, net of accumulated depreciation and accrued vacations and sick leave in the Office's Statement of Net Assets. Also the presentation of the Office's financial statements under the accrual basis of accounting, the inclusion of management's discussion and analysis, and exclusion of the accounts groups are changes required by GASB No. 34. The Adoption of GASB No. 38 modifies, rescinds and establishes certain financial statement disclosure requirements.

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement (continued)

The effect of the implementation of GASB No. 34 in prior fiscal years has been presented in the cumulative effect of change in accounting principle in the Statement of Activities. The major components of the cumulative effect of change in accounting principle are as follow:

Property and equipment previously recorded in general fixed assets account group, net of prior years accumulated depreciation	\$ 2,566,939
Fund balance previously recorded as deferred revenues	1,089,969
Long-term debt previously recorded in the general long-term debt account group	<u>(5,312,891)</u>
	<u><u>\$ (1,655,983)</u></u>

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net deficiency in assets and the statement of activities) report information on all of the nonfiduciary activities of the Office.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include appropriations that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds.

Measurement Focus, Basis of Accounting, and Financial Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Office reports the general fund, which is the Office's primary operating fund. It accounts for all financial resources.

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Assets, Liabilities, and Net Assets

Cash

The cash accounts of the Office are primarily maintained by the Department of Treasury of the Commonwealth of Puerto Rico, who administers the funds of the government. All the receipts and disbursements of the Office are made through the Governmental Development Bank of Puerto Rico, which maintains separate codes under the government general account in order to identify each separate agency. The disbursements and receipts related to travel and meals expenditures, as well as others, are maintained in the bank account of the Special Disbursement Officer of the Office.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities in the government-wide financial statements of the Office. Capital assets are defined by the government as assets with or estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment	5-10
Furniture	10
Electronic equipment for data processing	10
Vehicles	10

Vacation and Sick Leave

The employees of the Office are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 60 and 90 days, respectively. When an employee resigns, the Office accumulated vacation is liquidated. The resignation as a government employee, before consuming the accrued sick leave days, ends all right to compensation except for those employees with ten or more years of service, who have the right to such compensation up to the maximum allowed.

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Insurance

The Office has an insurance coverage for its public facilities, primarily to provide protection against catastrophic losses. Also, the principal officers of the Office are covered under various policies. The Secretary of the Department of the Treasury is the agent in charge of acquiring the insurance coverages of the Office.

Budgetary Data

The Office's budgetary system is its primary control over expenditures. The Office conducts the following procedures in order to establish the budgetary information reflected in the accompanying financial statements:

- The Office prepares its annual budget and submits it to the Legislature for its approval.
- The budget is approved on the basis of a global assignment.
- The Office submits to the Office of Management and Budget of the Commonwealth of Puerto Rico (OMB) the budget detailed by expenditure classification for its registration in books.
- The budget is prepared using modified accrual basis of accounting, except for encumbrances, as explained below:

The revenues, per budget, presented in the *Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual*, consisted of four joint resolutions for the year ended June 30, 2002 for operational expenses of \$32,528,452.

The primary differences between the budgetary basis and the GAAP basis are the encumbrances are presented as expenditures under the budgetary basis.

The reconciliation of the expenditures between the budgetary basis and the GAAP basis is as follows:

Expenditures according to the <i>Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual</i>	\$31,458,026
Plus prior years encumbrances recorded as expenditures during current year under the GAAP basis	622,746
Less current year encumbrances not recorded under GAAP basis	<u>417,654</u>
Expenditures according to the <i>Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance</i>	<u><u>\$31,663,118</u></u>

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Budgetary Data (continued)

In August 1994, the Governmental Accounting Law of the Commonwealth of Puerto Rico, Law 230 of July 23, 1974, was amended in order to establish that all of the unencumbered funds of the governmental agencies will remain in their accounting books at the end of the fiscal year for which they were granted. These unencumbered funds are allowed to be partially or totally encumbered, for a period of three years from the closing of the fiscal year for which they pertain.

The balance of encumbered and unencumbered funds as of June 30, 2002, are composed of the following:

<u>Fiscal Year</u>	<u>Encumbered Funds</u>	<u>Unencumbered Funds</u>
2000-2001	\$ 12,548	\$ 454,675
2001-2002	417,654	1,070,426
	<u>\$430,202</u>	<u>\$1,525,101</u>

2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Statement of Net Deficiency in Assets

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets and the governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Accrued vacations and sick leave- current	\$2,247,044
Accrued vacations and sick leave- long term	<u>3,065,847</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net deficiency in assets - statement of net deficiency in assets	<u>\$5,312,891</u>

Another element of that reconciliation is capital assets not reported in the funds. The details of this difference are as follows:

Capital assets	\$5,535,873
Accumulated Depreciation	<u>(3,766,914)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net deficiency in assets - statement of net deficiency in assets	<u>\$1,768,959</u>

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

2. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Explanation of Difference Between Governmental Fund Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

The difference between governmental fund revenues, expenditures and changes in fund balances and the statement of activities is that the amortization of capital assets is not reported as expenditures in governmental funds.

3. Cash

The cash accounts of the Office are maintained together with the cash amounts of the Government of the Commonwealth of Puerto Rico, and no collateral is required to be maintained for these accounts.

4. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, being depreciated:				
Equipment	\$ 593,684	\$107,581	\$ 13,237	\$ 688,028
Electronic equipment	3,478,062	607,724	321,466	3,764,320
Furniture	727,652	171,267	46,630	852,289
Vehicles	191,386	39,850	-	231,236
Total capital assets being depreciated	4,990,784	926,422	381,333	5,535,873
Less accumulated depreciation for:				
Equipment	333,772	64,287	10,432	387,627
Electronic equipment	2,427,512	641,406	290,071	2,778,847
Furniture	470,688	74,165	38,601	506,252
Vehicles	76,066	18,122	-	94,188
Total accumulated depreciation	3,308,038	797,980	339,104	3,766,914
Total capital assets, being depreciated, net	\$1,682,746	\$641,406	\$ 42,229	\$1,768,959

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

5. Pension Plan

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (the System) is a cost-sharing multiple-employer defined benefit pension plan sponsored by, and reported as a component unit of, the Commonwealth of Puerto Rico. All regular employees of the Office under age 55, at the date of employment, become members of the System as a condition to their employment.

The System provides retirement, death and disability benefits pursuant to Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Disability retirement benefits are available to members for occupational and nonoccupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Participants who have attained an age of at least fifty-five (55) years and have completed at least twenty-five years of creditable service or participants who have attained age of at least fifty-eight (58) years and have completed at least ten (10) years of creditable service or participants who have attained age 65 with ten years of credited services if hired after April 1990, are entitled to annual benefit, payable monthly for life.

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

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

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

Employees accepted before April 1, 1990 are required to contribute from 5.775% of their salary, depending on the elected alternative. Employees accepted after such date, contribute 8.275% of their salary. The Office's contributions are 9.275% of gross salary. Total employee and employer contributions during the year ended June 30, 2002 amounted to approximately \$1,705,000. Total covered payroll during the year amounted approximately \$18,400,000.

Additional information on the System is provided in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from Mrs. Marisol Marchand Castro, Administrator, Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949.

Office of the Comptroller of Puerto Rico
Notes to Financial Statements (continued)

6. Lease Commitments

The Office rents its facilities through operating lease agreements in which the latest expires in 2005. Rent expense under such lease agreements for the year ended June 30, 2002 amounted to approximately \$996,000. Future minimum lease payments as of June 30, 2002 are as follows:

<u>Year Ending June 30</u>	
2003	\$ 992,251
2004	818,777
2005	<u>545,573</u>
	<u>\$2,356,601</u>

7. Legislative Appropriations

The Office's principal source of revenues is legislative appropriations from the Commonwealth. Appropriations are for general operating purposes of the Office.

8. Contingencies

The Office is defendant in various lawsuits pending in court. As established by the law of Puerto Rico, the Department of Justice of the Commonwealth of Puerto Rico represents the Office in any litigation. As established by law, any unfavorable outcome against the Office will be settled by the Commonwealth of Puerto Rico and not from the Office itself. Accordingly, the Office does not recognize any accrual for any unfavorable outcome in the accompanying financial statements.

**Report of Independent Auditors
on Compliance and Internal Control Over Financial Reporting
in Accordance with Government Auditing Standards**

Hon. Manuel Díaz Saldaña, Comptroller
Commonwealth of Puerto Rico
Office of the Comptroller of Puerto Rico

We have audited the financial statements of the Office of the Comptroller of Puerto Rico (the Office), an agency assigned to the Legislative Branch of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 31, 2002. We conducted our audit in accordance with generally accepted auditing standards 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 Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the Office in a separate letter dated August 31, 2002.

This report is intended solely for the information and use of the Office's management, and is not intended to be and should not be used by anyone other than this specified party.

August 31, 2002

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of this report.



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Statistical Section

Comprehensive Annual Financial Report



Ileana M. Colón Carlo
1987-1997

"We will work with firmness to make sure that public funds are used pursuant to the law and regulations, and not for the benefit of any person in or outside public service. Our commitment is with the people of Puerto Rico."

"We, the people of Puerto Rico, all wish to have a good government. It is not a task for elected, or designated officials, or the rest of the public employees only. We are all responsible for watching and be a part of the actions directed to achieve a government of excellence, and therefore a better Puerto Rico."

Comptrollership at your service...



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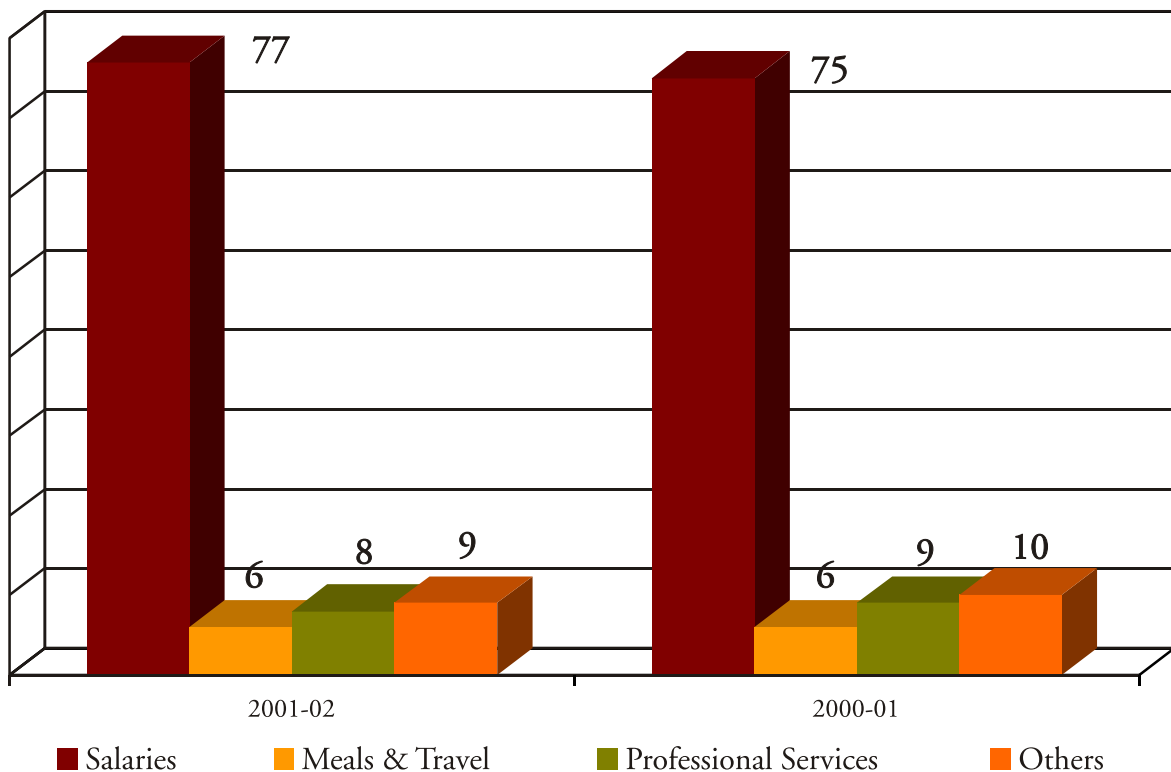
REPORT AND OPERATIONS

The table and chart that follow indicate the composition of the budget by salaries, meals and travel, professional services and others, with respect to the total legislative appropriations.

The table and chart also present a comparative picture for two consecutive fiscal years, 2001-02 and 2000-01.

Chart 1 - Budget

<u>Description</u>	<u>2001-02</u>		<u>2000-01</u>	
	<u>Appropriation</u>	<u>Percent</u>	<u>Appropriation</u>	<u>Percent</u>
Salaries & fringe benefits	\$25,156,452	77	\$21,040,000	75
Meals and travel	1,817,466	6	1,641,000	6
Professional Services	2,487,105	8	2,652,000	9
Others	<u>3,067,429</u>	<u>9</u>	<u>2,748,000</u>	<u>10</u>
Total	<u>\$32,528,452</u>	<u>100</u>	<u>\$28,081,000</u>	<u>100</u>



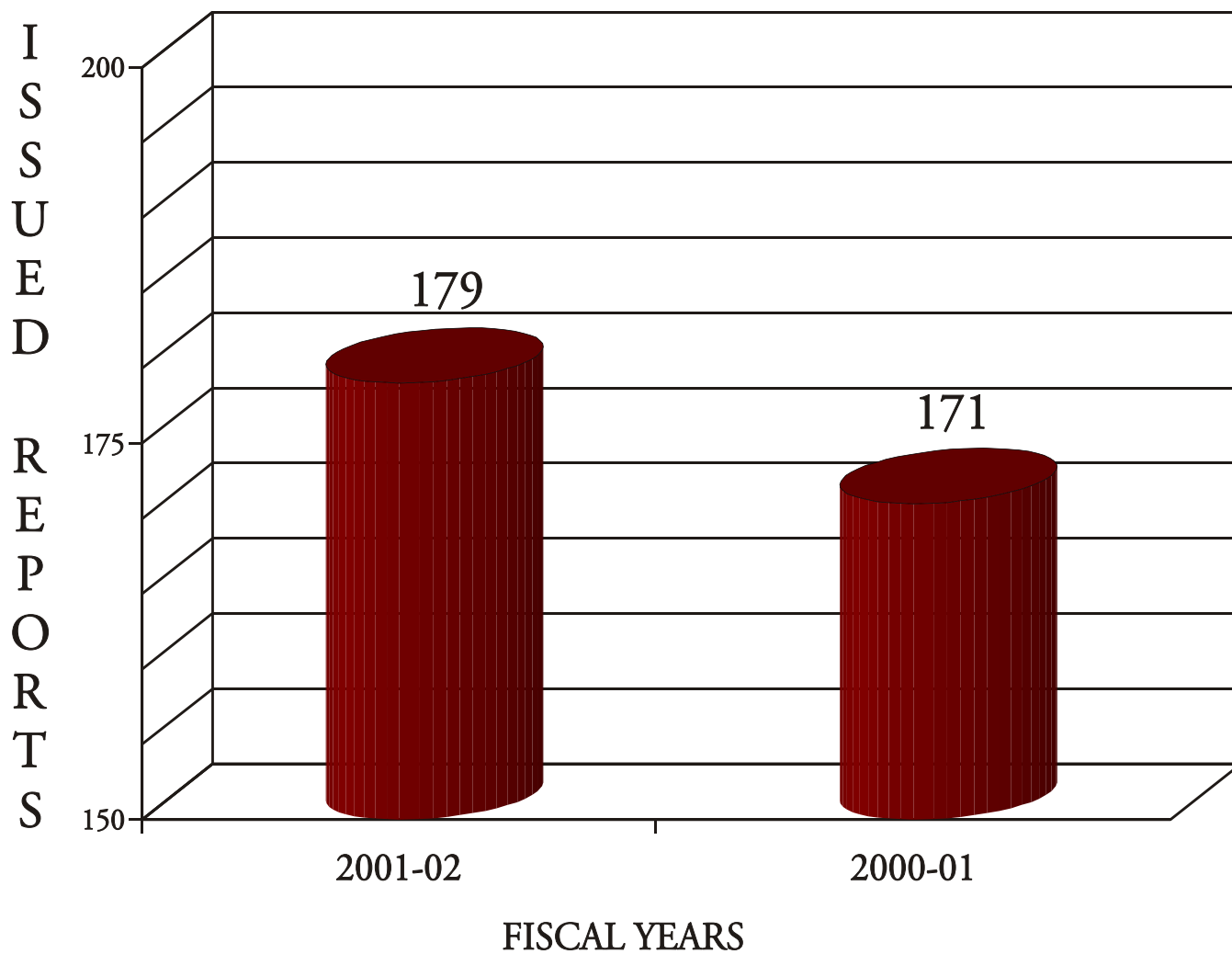


ISSUED REPORTS

During fiscal year 2001-02, our Office issued 179 reports. These reports involved audits which revealed administrative deficiencies, irregularities or illegal acts in the operation of audited units. They were completed and sent to the Governor, the President of the Senate and the Speaker of the House of Representatives by the end of each fiscal year.

Chart 2 shows the number of Issued Reports for fiscal years 2001-02 and 2000-01.

Chart 2 – Issued Reports

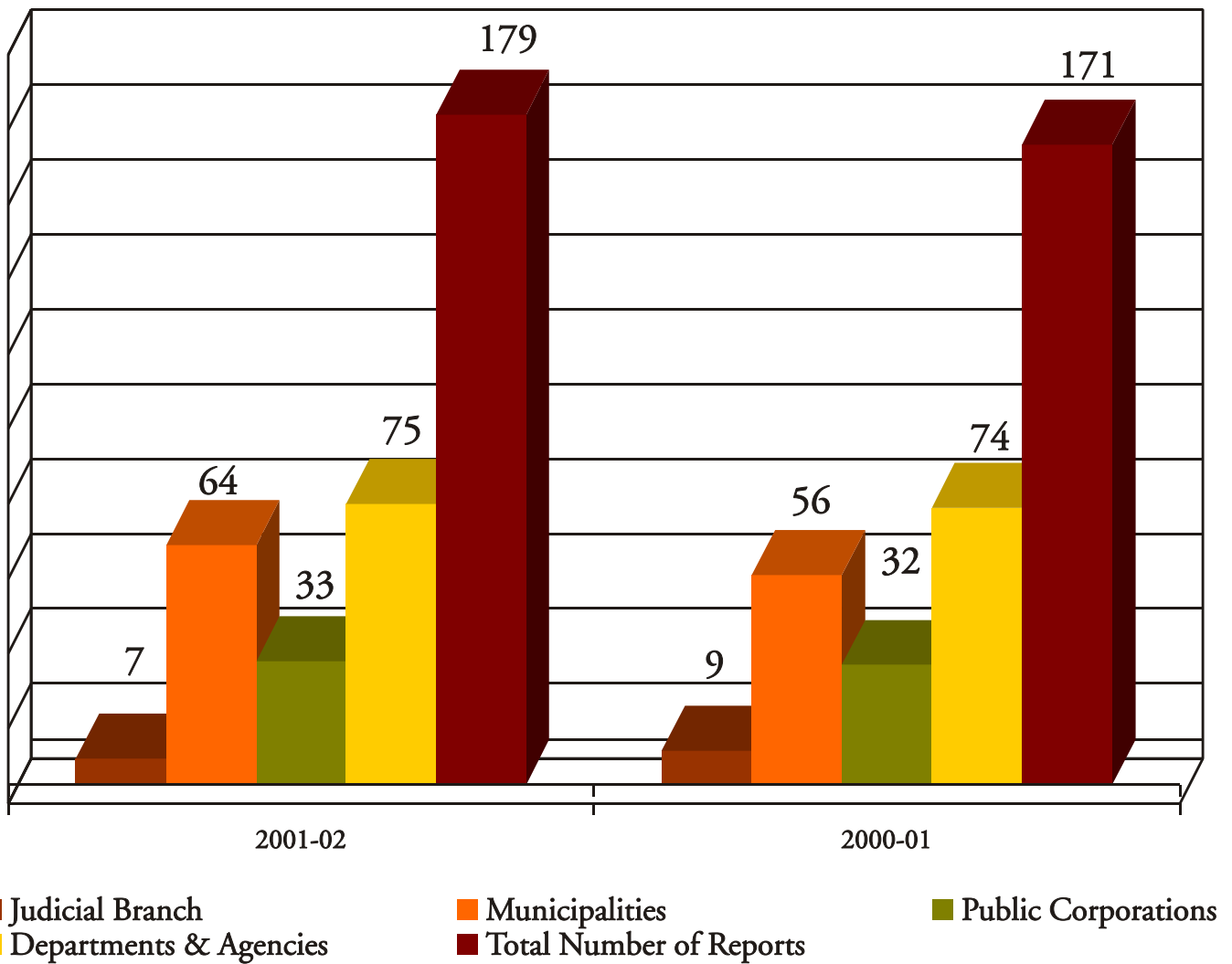




ISSUED REPORTS BY TYPE OF GOVERNMENT ENTITY

This chart shows the number of Issued Reports by type of government entity for fiscal year 2001-02 and 2000-01.

Chart 3 – Issued Reports by Entity

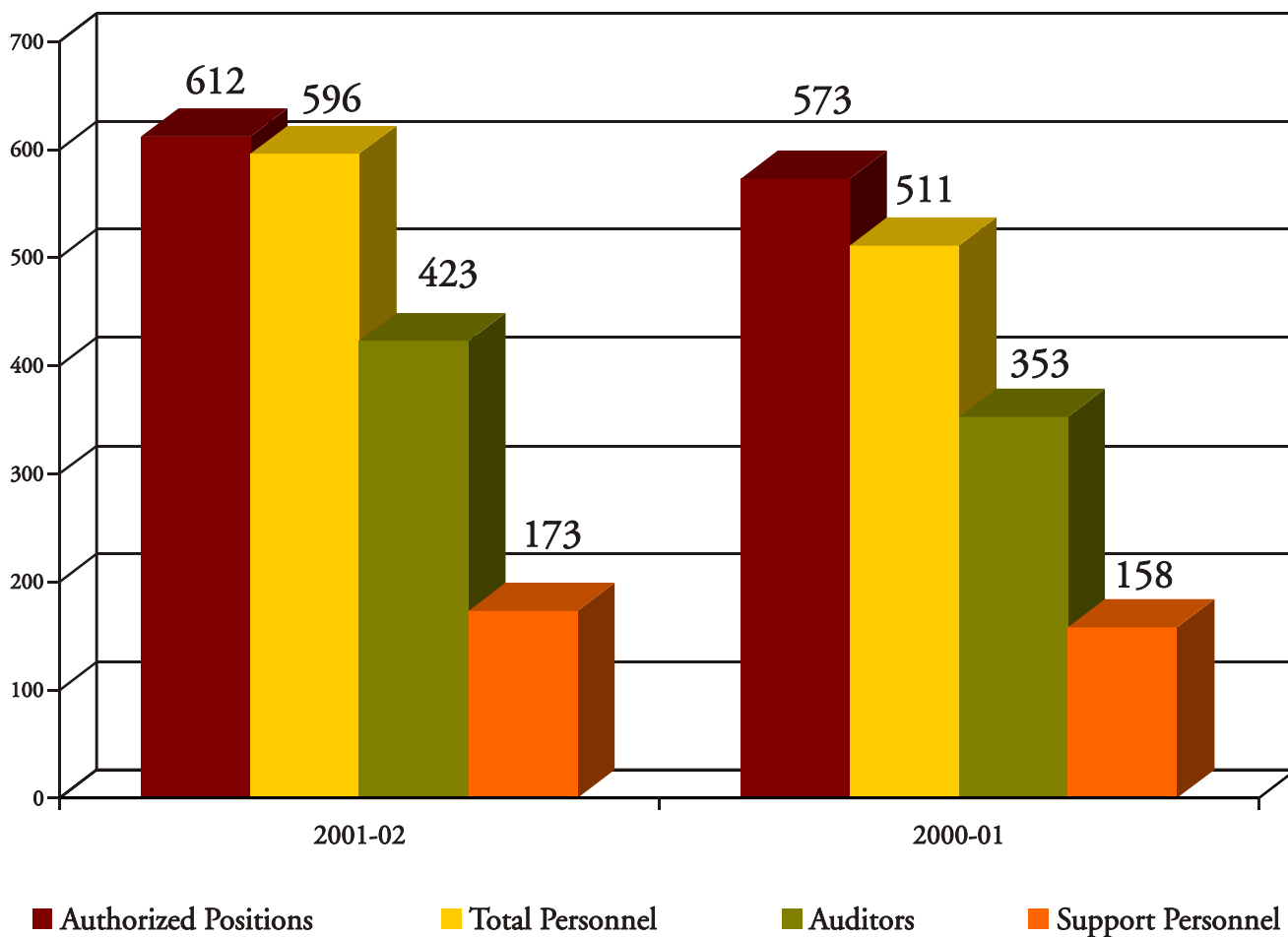




HUMAN RESOURCES

This Chart shows the breakdown of audit and support personnel for fiscal years 2001-02 and 2000-01.

Chart 4 – Distribution of Human Resources by Auditor and Support Personnel



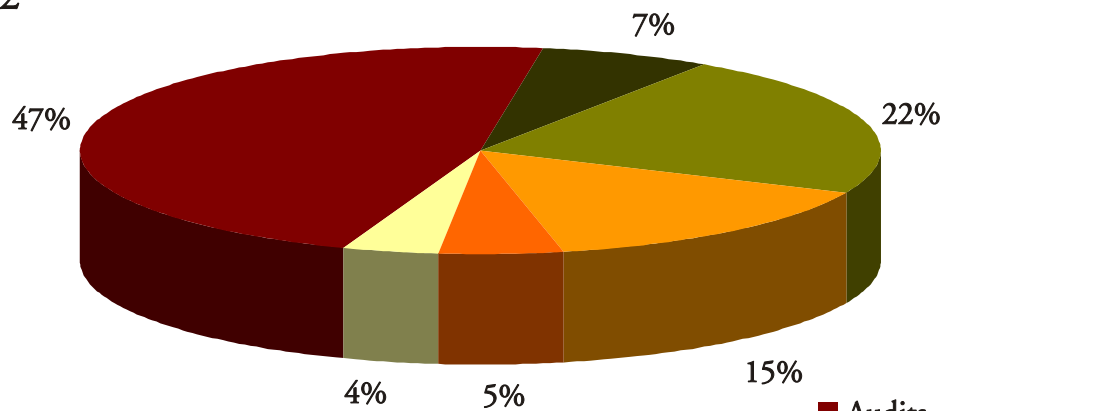


TIME DISTRIBUTION

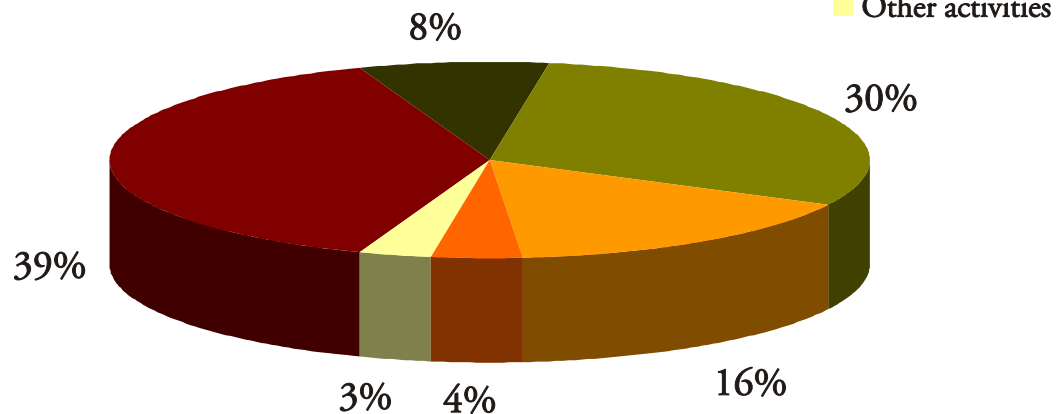
This chart shows, by percentages, a breakdown of hours dedicated to audit, administrative and office work, training, leave and other activities.

Chart 5 – Time Description by Activity During 2001-02 and 2000 -01

2001-02



2000-01





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Other Information

Comprehensive Annual Financial Report

Excerpts from Message of CPA Manuel Díaz Saldaña, Comptroller of Puerto Rico, at his Swear In Ceremony October 2, 1997

“Today, we express our respect toward the Comptrollership institution. We come to give a vote of hope for the Puerto Rican Public Administration.”

“We want a Comptrollership that anticipates, educates and prevents.”

“On account of that, we will leave our offices to call on many doors, open many channels of communication and connect us with multiple sectors that must collaborate with us in fostering a better government.”

Comptrollership at your service...



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INTERNAL ANTICORRUPTION POLICY (Summary)

STATEMENT POLICY

The Office of the Comptroller of Puerto Rico is highly committed to fight corruption and fraud in the government and in internal settings.

PHILOSOPHY OF THE ORGANIZATION

All our coworkers must act according to our codes of ethics and behavior, as well as the applicable norms and regulations of their respective working areas. Zero Tolerance to Corruption (CTC 2000) has been established through this policy.

INTERNAL CONTROL POLICY

- Code of Ethics
- Code of Behavior
- Regulations
- Procedures
- Norms for the safety of our computerized systems
- Norms for confidentiality of the Office information and processes
- Annual renewal of constitutional commitment
- Annual certification of profit making activities and of rendering Income Tax forms.

CODE OF ETHICS COMMITTEE

This Committee is responsible for giving immediate attention to any notification or allegation of actions that constitute fraud or corruption.

PREVENTION PHASE

Recruiting: The recruiting of personnel must be ruled by the regulations and procedures approved by the Comptroller.

Personnel Responsibility: They are required to notify our Ethics Committee of the possibility of an action that constitute corruption, which they are aware of.

Regulation: Effective internal controls are established in regulations, systems and procedures of this Office to warrant purity in administrative, fiscal and financial processes.

Internal Controls: The managerial personnel is responsible for watching that controls established in their respective working areas, are effective and efficient and are updated. Our auditors from time to time audit processes in order to determine if the controls are adequate and efficient.

External Controls: The Office is subject to monitoring by external entities, in order to warrant a healthy public administration, As follows:

- Advisory Committee on Internal Audits shall be able to make audits of the Office and have access to all the accounting files.
- External Auditors shall not be contracted for more than three consecutive years.
- Regulations for providers of property or services policies were approved to regulate relations between the Office and providers.
- Government Ethics Office (GEO) - both the Comptroller and designated personnel thereby, render financial reports to GEO.

NOTIFICATION OF ACTIONS THAT CONSTITUTE CORRUPTION

Direct communication to the Ethics Committee guarantee:

- Consistency in handling information
- Adequate, objective and independent investigation
- Protection for coworkers and the interests of the Office.

Depending on the magnitude of the action committed, the Comptroller determines if the case is referred to other government entities, such as:

- Police Department
- Department of Justice
- Government Ethics Office
- Department of the Treasury

CONFIDENTIALITY

Laws No. 426 of November 7, 2000 and No. 14 of April 11, 2001, provide protection of the rights of accusing public employees and officials, complainants or witnesses of alleged corruption actions.

CONTINUOUS EDUCATION

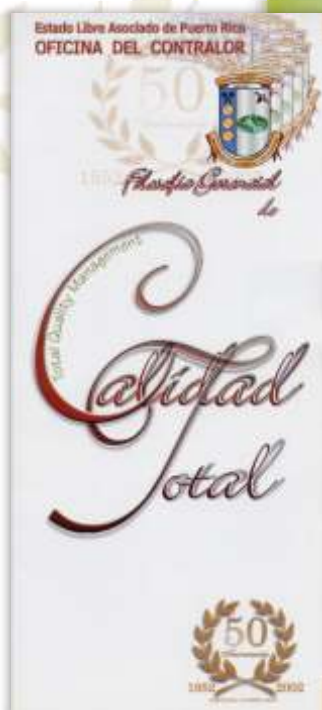
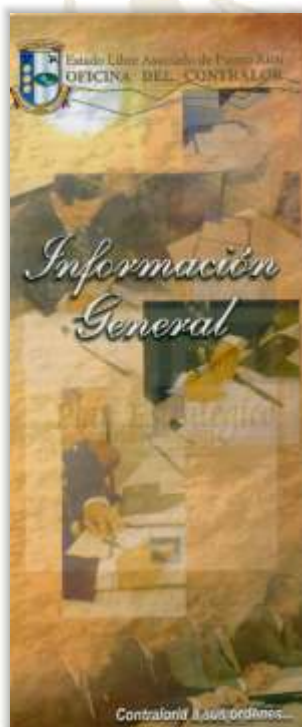
We established a policy of requiring a minimum of 24 annual credit hours, to support personnel and 40 credit hours to auditing staff to expand their knowledge on internal controls, laws, regulations, fiscal norms and procedures, among others.

Revised on September 16, 2002.

(Sgd) Manuel Díaz Saldaña
Comptroller of Puerto Rico

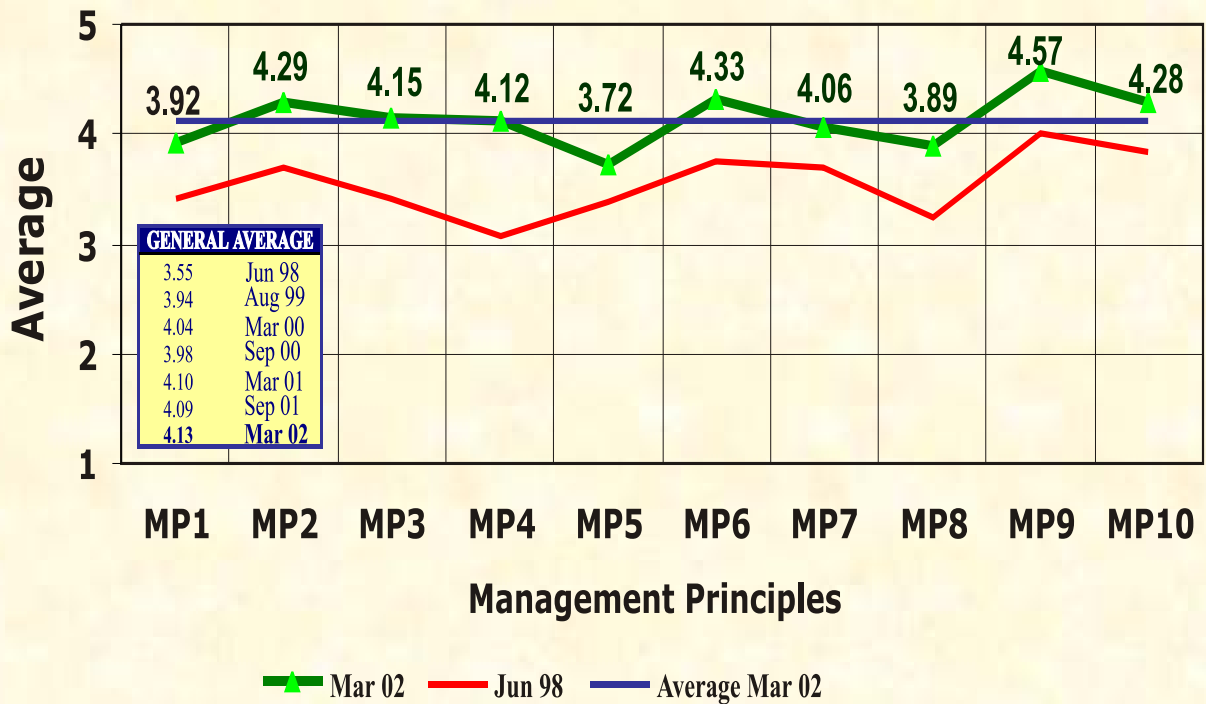
Zero Tolerance to Corruption

REFERENCE GUIDES PUBLISHED






MESUREMENT OF THE QUALITY OF THE WORK ENVIRONMENT





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WE COUNT ON YOUR
COOPERATION TO IMPROVE
THE OVERSIGHT FUNCTION
AND ADMINISTRATION
OF PUBLIC FUNDS
AND PROPERTY



*“Fifty years of quality services reassert
our commitment with excellence”*



TQM
A Total Quality Management Organization



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