

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE COMERIO

AUDITORIA 2001-02

30 DE JUNIO DE 2002

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2002**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And the Municipal Assembly
Municipality of Comerío
Comerío, Puerto Rico

I have audited the accompanying general-purpose financial statements of the Municipality of Comerío, 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 of Comerío management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

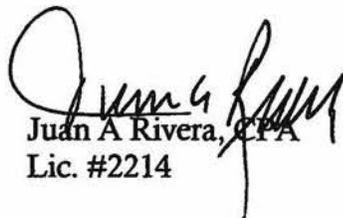
I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable 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 the significant estimates made by management, as well as evaluating the overall financial statements presentation. I believe that my audit provides a reasonable basis for my opinion.

As describe in note 1, the Municipality of Comerío has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourselves as to the fixed asset balance or such all groups amounting to \$10,863,919.

In my opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Comerio as of June 30, 2002, and the result of its operations and changes in fund balance for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 05, 2002 on my consideration of the Municipality of Comerio internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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



Juan A Rivera, CPA
Lic. #2214

December 05, 2002
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855560 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COMERIO
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES
AND ACCOUNT GROUP
As of June 30, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPE	ACCOUNT GROUPS		Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	Enterprise	General Fixed Assets	General Long-term Debts	
<u>ASSETS AND OTHER DEBITS</u>								
Cash	\$813,368	\$582,188		\$193,914	\$30,610			\$1,620,080
Cash with fiscal agent			\$306,022					306,022
Investments	2,555,000	2,150,000		1,284,000				5,989,000
Receivables:								
Accounts Receivable					13,360			13,360
Due from general fund		315,468						315,468
Due from capital project	206,651							206,651
Due from governmental agencies	505,736							505,736
Patent	354							354
Rents	5,899							5,899
Tenant deposits held in trust					14,296			14,296
Deposits					773,212			773,212
General Fixed Assets					1,724,774	\$10,863,919		12,588,693
Amount in debt service fund							\$306,022	306,022
Property tax advances							767,801	767,801
Amounts to be provided to:								
Compensate employees benefits							1,092,502	1,092,502
Commitment and contingencies							40,000	40,000
Repay general obligations							237,978	237,978
TOTAL ASSETS	4,087,008	3,047,656	306,022	1,477,914	2,556,252	10,863,919	2,444,303	24,783,074
<u>LIABILITIES AND FUND EQUITY</u>								
<u>LIABILITIES</u>								
Accounts payable & accrued expenses	163,628	66,076			36,554			266,258
Mortgage payable					1,533,490			1,533,490
Due to state government agencies	656,205							656,205
Due to special fund	315,468							315,468
Due to general project				206,651				206,651
Deferred revenues	210,669	162,760						373,429
Tenant deposits held in trust					14,296			14,296
Property tax advances							767,801	767,801
Commitment and contingencies							40,000	40,000
Accrued employees benefits							1,092,502	1,092,502
General obligations:								
Bonds							324,000	324,000
Notes							220,000	220,000
TOTAL LIABILITIES	1,345,970	228,836		206,651	1,584,340		2,444,303	5,810,100
<u>FUND EQUITY</u>								
FUND BALANCE								
Investment in general fixed assets						10,863,919		10,863,919
Reserve for encumbrances	873,600							873,600
Reserve for debt service			306,022					306,022
Designated for future year expenditures	1,867,438	2,818,820		1,271,263	971,912			6,929,433
TOTAL FUND EQUITY	2,741,038	2,818,820	306,022	1,271,263	971,912			18,972,974
TOTAL LIABILITIES & FUND EQUITY	\$4,087,008	\$3,047,656	\$306,022	\$1,477,914	\$2,556,252	\$10,863,919	\$2,444,303	\$24,783,074

See accompanying notes to General Purpose Financial Statements

**MUNICIPALITY OF COMERIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Proprietary Fund Type	Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	Enterprise	
REVENUES:						
Property taxes	\$493,276		\$177,278			\$670,554
Intergovernmental Grants:	5,508,374					5,508,374
Federal grant contribution		\$1,566,205				1,566,205
State grant contribution		1,763,318		\$1,510,648		3,273,966
Volume of business tax	386,140					386,140
Interest	159,662		3,872		\$18,785	182,319
Rent	165,147				514,710	679,857
Construction - Excise taxes	698,667					698,667
Miscellaneous	152,404				758	153,162
TOTAL REVENUES:	7,563,670	3,329,523	181,150	1,510,648	534,253	13,119,244
EXPENDITURES:						
General Administration	4,723,497	362,522			417,779	5,503,798
Public Works	1,655,383	1,252,901				2,908,284
Sports and recreation	329,446	663,043				992,489
Civil Defence	192,582	2,960				195,542
Public Relationship	239,640					239,640
Municipal Police	339,003	82,420				421,423
Citizen Business	444,795					444,795
General Services	270,553					270,553
Housing		348,533				348,533
					140,843	140,843
Debt service:						
Principal and Interest			90,719			90,719
Capital outlays				1,045,076		1,045,076
TOTAL EXPENDITURES:	8,194,899	2,712,379	90,719	1,045,076	558,622	12,601,695
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	(631,229)	617,144	90,431	465,572	(24,369)	517,549
OTHER FINANCING SOURCES (USES):						
Loan	(206,651)			206,651		
Transferred from in (out)	(162,244)	(370,827)	(4,504)	537,575		
TOTAL	(368,895)	(370,827)	(4,504)	744,226		
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,000,124)	246,317	85,927	1,209,798	(24,369)	517,549
Fund balance (Deficit), beginning	3,741,162	2,572,503	220,095	61,465	996,281	7,591,506
Fund balance (Deficit), ending	\$2,741,038	\$2,818,820	\$306,022	\$1,271,263	\$971,912	\$8,109,055

See accompanying notes to General Purpose Financial Statements

MUNICIPALITY OF COMERIO
STATEMENT OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL & DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2002

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>			<u>TOTAL (MEMORANDUM ONLY)</u>		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	TOTAL BUDGET	TOTAL ACTUAL	TOTAL VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE:									
PROPERTY TAX	\$493,276	\$493,276	\$0				\$493,276	\$493,276	\$0
INTERGOVERNMENTAL	5,328,294	5,508,374	180,080				5,328,294	5,508,374	180,080
VOLUME OF BUSINESS TAX	360,000	386,140	26,140				360,000	386,140	26,140
EXCISE TAX	475,000	698,667	223,667				475,000	698,667	223,667
INTEREST	257,000	159,662	(97,338)				257,000	159,662	(97,338)
RENT	121,000	165,147	44,147				121,000	165,147	44,147
MISCELLANEOUS	1,483,405	152,404	(1,331,001)				1,483,405	152,404	(1,331,001)
DEBT SERVICE				\$123,485	\$181,150	\$57,665	123,485	181,150	57,665
TOTAL REVENUE	8,517,975	7,563,670	(954,305)	123,485	181,150	57,665	8,641,460	7,744,820	(896,640)
EXPENDITURE:									
MUNICIPAL COUNCIL	129,506	110,601	18,905				\$129,506	\$110,601	18,905
MAYOR OFFICE	836,907	821,897	15,010				836,907	821,897	15,010
FINANCE	2,150,281	2,063,942	86,339				2,150,281	2,063,942	86,339
PUBLIC WORK	2,189,131	1,962,838	226,293				2,189,131	1,962,838	226,293
CIVIL DEFENSE	261,684	193,032	68,652				261,684	193,032	68,652
MUNICIPAL POLICE	350,864	339,783	11,081				350,864	339,783	11,081
PERSONNEL	700,007	638,498	61,509				700,007	638,498	61,509
SPORT & RECREATIONS	382,869	358,477	24,392				382,869	358,477	24,392
PUBLIC RELATIONSHIP	252,596	248,336	4,260				252,596	248,336	4,260
CITIZENS BUSINESS	477,488	447,265	30,223				477,488	447,265	30,223
SECRETARY	266,055	234,558	31,497				266,055	234,558	31,497
INTERNAL AUDIT	74,047	73,566	481				74,047	73,566	481
PLANNING OFFICE	97,805	97,692	113				97,805	97,692	113
GENERAL SERVICES	348,735	277,647	71,088				348,735	277,647	71,088
DEBT SERVICE				123,485	95,223	28,262	123,485	95,223	28,262
TOTAL EXPENDITURE	8,517,975	7,868,132	649,843	123,485	95,223	28,262	8,641,460	7,963,355	678,105
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	\$0	(\$304,462)	(\$1,604,148)	\$0	\$85,927	\$29,403	\$0	(\$218,535)	(\$1,574,745)

See Note to General Purpose Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Comerio (the Municipality) was established in 1826. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a twelve (12) members municipal Assembly who are elected every four years through the Puerto Rico general elections .

The Municipality provides the following services: general and administrative service, public safety, human services, education, public works, culture and recreation, sanitation, health, housing and urban development and welfare.

The Municipality's general purpose financial statements are presented in accordance with generally accepted accounting principles, as applicable to governmental entities. A summary of the Municipality significant accounting policies follows:

A. REPORTING ENTITY

The Statement 14 of the Governmental Accounting Standards Board, defining the Governmental Financial Reporting Entity, specifies the criteria to be used in defining the reporting entity for financial reporting purposes. The basic, but not the only, criteria for including a potential component unit in the reporting entity are the following:

- a. Legally separate organization
- b. Financial accountability
- c. Financial accountability, as a result of fiscal dependence
- d. Specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- ❖ Selection of Governing Authority
- ❖ Designation of Management
- ❖ Ability to influence Operations Significantly

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accountability for Fiscal Matters

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

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

- ❖ **Scope of Public Service**
- ❖ **Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component unit are to be included as part of the reporting entity. My specific evaluations of the criteria applicable to the Municipality of Comerío indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

Based to the criteria established above, Rio Plata Development is non- profit organization duly organized existent under the regulation of section 515 of rural housing services, And the municipality financial statements included in the enterprise fund the operation of this organization.

Rio de Plata Development (Project) is a 90-unit dwelling units project located at comerio, PR. The project is operated under Section 515 of U.S. rural housing service (RHS)/ Department of Agriculture (DA) / Rural Development (RD) and regulated by the U.S. Department of housing and Urban Development (HUD) and RHS- DA-RD with respect to rental charge and operating methods. The Project is also subject to section 8 Housing Assistance Payments agreements with HUD, and significant portion of the project's rental income is received from HUD.

Municipality of Comerio, Puerto Rico (Owner) holds legal title of the Project. The administration of the Project is carried-out by a Management Agent that is unrelated to the Owner.

The project entered into a regulatory agreement with HUD providing that rent increases are subject to HUD's approval. The books of the project are kept in accordance with the requirements HUD. The accounting policies followed by the Project conform to predominant industry practice and are based on generally accepted accounting principles of the United States of America.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The non profit organization (Project) financial statements were audited by other certified public accounting firm and unqualified report was issue on September 11, 2002. copy of the said report can be obtained from CPA Diaz Martinez, PSC, Box 8369, Caguas, PR 00726 - 8369.

B. BASIC OF PRESENTATION

The general- purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Municipality. Additional data has been obtained from reports prepared by other municipal departments based on independent or subsidiary accounting records maintained by them. The Municipality records its transactions in the fund types and account groups described below. Transactions between funds within a fund type, if any, have been eliminated.

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

General Fund - The general fund is the operating fund of the Municipality. It is used to record all the financial resources and the majority of current operations except for those of specific nature that must be recorded in other funds.

Special Revenue - Is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Fund - In the debt service fund the accumulation of resources assigned for the payment of principal, interest and related cost of the general long-term debts.

Capital Projects - Is used to account for financial resources reserved for the acquisition or construction of major capital facilities.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. BASIC OF PRESENTATION – CONTINUED

Accounts Groups

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

Proprietary Fund Types

Proprietary Funds are used to account for ongoing organizations and activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following is the Municipality's proprietary fund type.

Enterprise Funds

Is used to account for operations that are financed and operated in a manner similar to a private business enterprises where the intent is that costs (expenses, including amortization and depreciation) of providing goods or services to the general public on continuing basis be financed or recovered primarily through user charges.

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

General Fixed Assets - is used to account for all fixed assets of the Municipality other than those accounted for in the proprietary funds, and certain fiduciary funds.

C. BASIS OF ACCOUNTING

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. BASIS OF ACCOUNTING (CONT.)

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

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

D. ENCUMBRANCES

Encumbrance accounting is used in the governmental funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of resources are recorded to reserve that portion of the applicable appropriation for future obligations. Open encumbrances at year-end are reported as a reserve of fund balance since they do not constitute expenditures or liabilities.

E. BUDGETARY DATA

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

- 1) Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- 2) The budget document is available for public inspection prior to its approval by the Municipal Assembly. Also, a copy of the document is sent to the Municipal Affairs Commissioner for further evaluation and recommendation.
- 3) Prior to July 1, the annual budget is legally enacted through the approval of the annual appropriation ordinance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. BUDGETARY DATA – CONTINUE

- 4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for encumbrances and property tax advances as described below.

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

The necessary adjustments to convert the result of operations of the General Fund from the accounting basis to the budgetary basis are as follows:

	Revenues	Expenditures
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) General Fund	\$7,563,670	\$8,194,899
Adjustments:		
Add:		
Current year encumbrances recognized as expenditures in the budgetary basis	-0-	873,600
Deduct:		
Non budgetary transactions Payment of "Resultas"	-0-	(544,162)
Accounts Payable and Intra Governmental Accruals	-0-	(656,205)
Budgetary Basis	<u>\$7,563,670</u>	<u>\$7,868,132</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. BUDGETARY DATA – CONTINUED

The budget prepared for each of the special revenues funds is based on a program period that is not necessarily a year. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenues Fund.

F. CASH

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Treasury Department of the Commonwealth of Puerto Rico. Cash balance from most funds are pooled and invested. All cash in banks at June 30, 2002, is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name.

	Insurance by FDIC	Insured by Collateral In Treasury Dept. of PR	Total
Oriental Group	\$ 100,000	\$ 3,739,000	\$3,839,000
First Bank	100,000	650,000	750,000
Doral Bank	<u>100,000</u>	<u>1,300,000</u>	<u>1,400,000</u>
	\$300,000	\$ 5,689,000	\$5,989,000

G. INTERFUND TRANSACTIONS

The general Fund provides services at cost to the special revenue fund. The amount charged to these funds for the services provided are treated as a reduction of expenditures in the General Fund.

H. RESERVATION OF FUND BALANCE

Reservation of fund balance is those portions of fund balances that are not appropriable for expenditure or that is legally segregated for a specific future use.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. RESERVATION OF FUND BALANCE - CONTINUE

The Municipality has the following reservations of fund balance:

- ❖ Encumbrances - represents future expenditures under purchase orders, contracts, and other commitments. Generally these committed amounts will become liabilities in future periods as goods or services are performed or received.
- ❖ Debt Service - represents net assets available to finance future debt service payments.

I. COMPENSATED ABSENCES

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days, with the excess paid annually. In the event of employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation. Employee's entitled vacations and sick leave are accrued in the General Long—Term Debt Account Group.

J. INSURANCE

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. TOTAL COLUMNS (MEMORANDUM ONLY)

The total columns are presented only to facilitate additional analysis. Consequently, amounts shown in Total Columns (Memorandum Only) do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfold elimination has not been made.

L. INVENTORIES

The general and special revenue fund purchase office and printing supplies, gasoline, oils, and other items. The cost of current purchases is recorded as expenditures

M. USED OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

NOTE 2 - PROPERTY TAXES

During August 1991, Law 80 was enacted to create an agency, named Municipal Revenues Collection Center (known by its Spanish acronym, CRIM), which assumed the functions of the assessment, levy and collection of all real and personal property taxes from the Office of Municipal Affairs of the Treasury Department effective July 1, 1993. The tax on real property is assessed by the CRIM. The assessment is made on January 1 of each year and is based on estimated current values of the property of the year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax return on real property is due on two equal installments in July 1 and January 1, following the assessment date.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 2 – PROPERTY TAXES (CONTINUED)

The annual tax rate for fiscal year 2002 is 8.08% for real property and 6.08% for personal property of which 1.03 of both belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the General Fund. Such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt services and accounted for in the Debt Service Fund. The Commonwealth also contributes an annual tax rate 0.2% of the property tax collected and such amount is accounted for similar of item (a) above.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality. Revenues related to the basic tax on exempt property are recorded in the General Fund when payments are received from the CRIM.

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

The CRIM advances to the Municipality an estimated amount of the basic property tax levied on non-exempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 3 - VOLUME OF BUSINESS TAX - MUNICIPAL TAXES

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

The tax rates are as follows:

-	Savings and Loans Associations	1.00%
-	Financial Institutions	1.50%
-	Other Organizations	.50%

The tax is payable in two equal semi-annual installments on July 1 and January 1 following the levy date. A discount of 5% is allowed for the full payment on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

NOTE 4 - INTERGOVERNMENTAL REVENUE

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 5 - GENERAL FIXED ASSETS

The Municipality has not maintained complete and adequate records of its general fixed assets. There are not control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger. Also, the property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Government Accounting and Financial Reporting). As a result, there is no adequate information available to property classify the Municipality's property and equipment between land, buildings, equipment and construction in progress.

The Municipality's management has estimated its general fixed assets as follows:

Land	\$ 596,110
Real Property	325,836
Vehicles, equipment, and furniture	<u>9,941,973</u>
Total fixed assets	<u>\$10,863,919</u>

NOTE 6 - GENERAL LONG - TERM DEBT

The general long-term debt transactions as of June 30, 2002 are as follows:

Balance at July 1, 2001	\$ 603,000
Additions during the year	-0-
Amortization during the year	<u>(59,000)</u>
Balance at the End of Year	<u>\$ 544,000</u> =====

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 6 - GENERAL LONG-TERM DEBT - CONTINUED

General long-term debts' transactions as of June 30, 2002 are as follows:

BONDS

\$342,000 series of 1991, payable in annual installments of \$8,000 to \$26,000 until January 1, 2016, interest at 5.75%.	\$253,000
---	-----------

\$95,000 series of 1992, payable in annual installments of \$1,000 to \$7,000 until January 1, 2016, interest at 5%.	71,000
	324,000

NOTE PAYABLE

\$350,000 series of 1998, payable in annual installments of \$40,000 to \$60,000 until July 1, 2005; interest from 4.865% to 6.31%.	220,000
	544,000

Other Long - Term Debts

Over Property tax Advances in Prior Years (Payable)	767,801
--	---------

Accumulated vacations and sick leaves payable to regular employees.	1,092,502
---	-----------

Contingencies	40,000
---------------	--------

\$2,444,303

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 6 - GENERAL LONG - TERM DEBT – CONTINUED

The annual requirements to amortize the general long-term debt outstanding at June 30, 2002 is as follows:

2003	\$ 94,444
2004	96,797
2005	93,967
2006	98,881
2007	33,250
Thereafter	306,893

	724,232
Amount Representing interest	180,232

	\$ 544,000
	=====

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

NOTE 7 - DEBT SERVICE FUND

Revenues for the Debt Service Fund mainly consist of the ad valorem property taxes (as described in note 2), which are recognized as revenues when collected and reported by the CRIM. These taxes are for the debt service requirements of the bonds and notes obligation issued by the Municipality. The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the ad valorem taxes and received from the CRIM.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

There are certain claims and lawsuits pending against the Municipality arising out of, and incidental to its operations. A portion of these lawsuits is covered by insurance.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 8 - COMMITMENTS AND CONTINGENCIES - CONTINUE

The Municipality is a grantee in various Federal Financial Assistance Programs. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resource for eligible purposes.

Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance cost as a result of these audits, becomes liability of the fund that receives the grant and must be reimbursed to the Federal Government from the Municipality's local funds. The "Schedule of Reportable Conditions and Recommendations" and the "Schedule of Findings and Questioned Costs" for the year ended June 30, 2002, disclosed some instances of noncompliance with applicable laws and regulations and with internal accounting and administrative control structure. No provision for any liability has been made in the general-purpose financial statements for possible federal claims for refunds of those grant funds. The amount, if any of expenditures, which may be disallowed, cannot be determined at this time.

The Municipality is a defendant and/or co defendant in various lawsuits, which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that potential liability that might exist in excess of the insurance will affect the financial position of the Municipality by \$40,000.

NOTE 9 - PENSION PLAN

Substantially all employees participate in the Retirement System of the Commonwealth of Puerto Rico (the System), a multiple employer public employee retirement system created by statute.

All employees who at the time of employment are 55 years old or less are eligible to participate in the System. Employees who retire at or after age 55 with 25 years of credited service or age 58 with 10 years of credited service are entitled to retirement benefits, payable each month for life, computed based on a benefit rate set forth by the System. The System also provides death and disability benefits.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 9 - PENSION PLAN - CONTINUE

Covered employees are required to contribute, depending on selected alternatives, from 5.775% to 8.275 of their salary to the System. The Municipality is required to contribute 9.275% of the participant's salary. Total contributions (both employer and employees) to the System made by the Municipality during the year ended June 30, 2002 amounted to \$207,033.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increase and step rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons between public employee retirement system and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial present value of accrued benefits obligation at June 30, 2002, for the System as a whole, was not determined at the moment of these financial statements.

The employers that have employees participating in the System are required to cover actuarial deficiencies related to the accrued benefits for their participating employees. The System is reviewing the data regarding the potential deficiency related to the Municipality and the results cannot be determined at the present time. Therefore, the liability, if any, which would have been presented in the general long-term debt account group has not been recorded.

NOTE 10 - DUE FROM OTHER AGENCIES

Represents grants and contributions due from local quasi-public agency.

	GENERAL FUND
Electric Power Authority	<u>\$ 505,736</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 11 – LEASES

Leasing arrangements with the Municipality as lessor are as follows:

1. The Municipality leases spaces under operating lease agreements with terms ranging from one to five years.
2. Total income from leases during the year ended June 30, 2002 was approximately \$165,147.
3. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance cost of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods no longer than one year.

NOTE 12 – DUE TO GOVERNMENTAL AGENCIES

The composition of this account is as follows:

	General Fund
Water and Sewer Authority	\$ 91,065
Electric Power Authority	509,905
General Service Administration	806
Retirement System	44,944
Puerto Rico Telephone Company	<u>9,485</u>
	<u>\$ 656,205</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 13 – SUBSEQUENT EVENT

The New Governmental Financial Reporting Model

In June 30, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34 “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary views document and exposure draft and conducting public hearing and focus groups.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
FISCAL YEAR ENDED JUNE 30, 2002
INTERNAL CONTROL SECTION

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

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

Compliance

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

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those Standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Comerío compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not include a legal determination of the Municipality of Comerío compliance with those requirements.

As described in item 2002-6 to 2002 - 9 in the accompanying schedule of findings and questioned costs, the Municipality of Comerío did not comply with requirements regarding cash management and compliances procedure that are applicable to its Section 8 Program. Compliance with such requirements is necessary, in my opinion, for the Municipality of Comerío to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Comerío complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

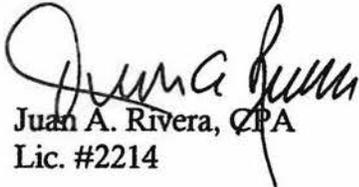
Internal Control Over Compliance

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Municipality of Comerío ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2001-6 to 2002 -9.

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 the 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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, I believe that none of the reportable conditions described above is a material weakness. This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


Juan A. Rivera, CPA
Lic. #2214

December 05, 2002
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855561 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
FISCAL YEAR ENDED JUNE 30, 2002
SINGLE AUDIT SECTION

JUAN A. RIVERA, CPA
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***REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

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

I have audited the financial statements of the Municipality of Comerío as of and for the year ended June 30, 2002, and have issued my report thereon dated December 5, 2002. I conducted my 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 Municipality of Comerío financial statements are free of material misstatement, I 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 statements amounts. However, providing and opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2002-1 to 2002 - 9.

Internal Control Over Financial Reporting

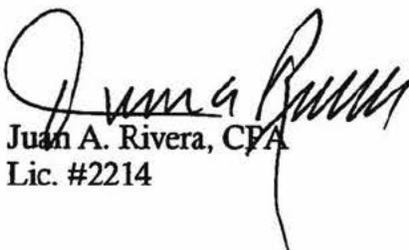
In planning and performing my audit, I considered the Municipality of Comerío internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Municipality of Comerío ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1 to 2002-9.

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. My 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 weakness. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, the Municipality's management, the Department of Housing and Urban Development (Cognizant Agency), and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



Juan A. Rivera, CPA
Lic. #2214

December 05, 2002
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855562 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the general-purpose financial statements of the Municipality of Comerío.
2. Nine reportable conditions disclosed during the audit of the financial statements are reported in the Schedule of Finding and Questioned Cost. None of the conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Municipality of Comerío were disclosed during the audit.
4. Four reportable condition disclosed during the audit of the major federal award programs is reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for the municipality of Comerío expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Municipality of Comerío are reported in Part C. of this Schedule.
7. The programs tested as major programs included: SBGP.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Municipality of Comerío was determined to be a low risk audited.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

B. REPORTABLE CONDITIONS

1 - FIXED ASSETS -2002-1

During our examination of the fixed assets, the following deficiencies were noted:

- a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger.
- b) The subsidiary ledger is not reconciled with the Municipality's accounting records.
- c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary.
- d) The property records do not provide the necessary information to make the disclosures required by the 1980 GAAFR (Governmental Accounting, Auditing, and Financial Reporting).
- e) The acquisition of fixed assets is not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.

As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between land, buildings, equipment, and construction in progress.

Recommendation:

We recommend that the Municipality should:

- a) Establish adequate control procedures to assure that all applicable expenditures are properly recorded in the Municipality's accounting records on a timely basis.
- b) Perform a physical inventory of all property and equipment and compare it with the items recorded in the property ledger. All differences noted should be immediately investigated and resolved. After updating the property ledger, formal procedures should be established to take a physical inventory on a periodic basis.

Auditee Response:

The municipality should entered in contract with outside consultant during next year to help in the compliance with GASB 34; with this work the above condition will be corrected

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

B. REPORTABLE CONDITIONS (CONTINUED)

2 - PERSONNEL RECORD – 2002-2

During my examination of the personnel record, the following deficiencies were note:

- A. The form number I-9 (Immigration form) required by law was missing in eighteen of the thirty five personnel files examined
- B. The employees record did not show that the governmental ethic law were discussed with the employees.
- C. The employees record did not show Academic Degree in seventeen files.

Recommendation:

I recommended that the forms mentioned above be included in each personnel record.

Auditee Response:

Personnel administrator are in the process of updating all employees record, this task will be finished by the end of second quarter of 2003.

3. DISBURSEMENT TEST – GENERAL FUND 2002-3

Condition:

My review of twenty three (23) disbursements vouchers of the Municipality general funds revealed noncompliance with applicable internal control requirements. The following documents were missing or incomplete.

- a. Support for Quotation - Advertising
 - 1. Supporting document from the different new^s paper did not included in the quotation procedure (not evidenced).
 - 2. The invoice did not included the percentage that the advertising agency ~~will~~ received and transferred to the municipality.

which

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

B – REPORTABLE CONDITIONS (CONTINUED)

3. DISBURSEMENT TEST – GENERAL FUND 2002-3 (CONT.)

Criteria:

The plan of organization and methods and procedures adopted by an entity shall ensure that the use of resources is consistent with laws, regulations, and polices. The above described conditions contrary to the following regulations:

- a. Law No. 81 däre August 30, 1991
- b. Attachment L of the PROMB circular of G 54-84

Such regulation establish among other things that:

- a. A financial management system shall provide for an effective control over and accountability for all funds, properties, and an other funds.
- b. A grantee financial management system shall provide for procedures for determining reasonableness, allocability and allowability of costs in accordance with the provisions of state regulations and OMB Circular A-87.

Effect of condition:

The municipality did not comply with the regulation mentioned above.

Recommendation:

The Municipality should reengineer its purchasing process taking into account the applicable laws. And regulations applicable. As part of the mechanization process, the Municipality should evaluate an accounting system that integrates the purchasing function.

Audtee Response:

The new purchasing procedure established by the municipality management transferred the responsibility of quotation to head of each functional department.

4. BID – 2002-4

Condition:

As part of my examination of the bid procedures of the Municipality, I requested the file and documents for eleven (11) bids granted during the year. The following summarizes the deficiencies funds:

1 of 11 the contract did not provide the budget account clause from where the service will be paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002**

B – REPORTABLE CONDITIONS (CONTINUED)

3. DISBURSEMENT TEST – GENERAL FUND 2002-3 (CONT.)

4. BID – 2002-4

Criteria:

This situation is contrary to law No. 81 of August 30, 1991, federal regulations and the PROMB circular G 54-84 which require an effective control and accountability of funds. Property, etc. also, The PR controller office established the criteria and clause to be included in the all municipalities contracts.

Cause of condition:

The Municipality did not establish the necessary procedures to comply with the bid requirement.

Effect of condition:

The Municipality did not comply with the regulations mentioned above.

Recommendation:

The Municipality must establish the necessary policies and procedures to prevent these situations in the future.

Auditee Response:

The offices of the municipality secretary were instructed to enforce the contract procedure to avoid this situation in this future.

5. REVENUES ACCOUNTS RECEIVABLE 2002-5

Condition:

The following deficiencies were found in the revenues and accounts receivable area:

a. During my examination of the volume of Business Tax (Patente) I noted the following:

1. Abdalla, Bassam

The Income Tax return did not have the received stamp from the Treasury Department

2. Island Finance Corp.

Audit financial statement not included

3. Marcuno Rodriguez, José

Did not have the copy of income tax return and the declaration is not signed.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

5. REVENUES ACCOUNTS RECEIVABLE 2002-5

4. First medical center three differences business was included in the same volume of business return.

Criteria:

In addition, the Municipality must maintain adequate controls over volume of business taxes receivable and shall establish an effective system of accounts receivable recording.

Cause of condition:

This situation cause that the data could be obtained from the system be unreliable and that the Municipality does not have a good control over the levy and / or collection of taxes.

Effect of condition:

The amount of volume of business tax receivable were not properly documented.

Recommendation:

The Municipality must establish the necessary procedures to have a computerized system to levy the volume of business tax and record accounts receivable and use this data in the collection process.

Auditee Response:

The auditee agreed with the finding and give instruction to the collectors to correct this situation immediately .

C. REPORTABLE CONDITION FEDERAL PROGRAMS

EXISTING

COST/COMMENTS 2002-6

QUESTIONED

1. Condition: The Municipality has not established effective cash Management procedures.
2. Criteria: Federal regulations require that grantees shall conform to The standards of timing and amounts as applicable to advances by federal agencies. Amounts requested should be limited to the Program's immediate cash needs.
3. Effect: As part of my test, I noted that Municipality paid the housing assistance payments after five days required by HUD.
4. Cause: Cash balances remained high because usually the funds received during the month are not expended within the elapsing time allowed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002**

C. REPORTABLE CONDITION FEDERAL PROGRAMS (CONT.)

EXISTING

COST/COMMENTS 2002-6

QUESTIONED

5. Recommendation: Coordination between finance department and federal section to disburse the payments in to the requirements time.
6. Auditee Response: Finance Director was instructed to establish formal procedures to ascertain compliance with the above State requirements.

Participant File Information 2002-7

Condition:

My review of (24) file of participant of the program, receivable noncompliance with applicable requirement. The following documents were missing or incomplete.

- a. 38 % the application was not signed.
- b. 21 % the participant file did not have form 50058
- c. 88% the municipality did not inspect the unit
- d. 4 % the file did not have the tenant certification
- e. 8 % the file did not have the copy of social security and birth certificate

Criteria:

Federal Requirement Established that certain participant and Land Lord information to be submitted before the approval of the benefit of Section 8 or Existing Federal Housing Program.

Cause of condition:

The participant record are incomplete, and not complied with federal compliance.

Effect:

The municipality may realized unlawful payments.

Recommendation:

Purge all participants record in order to included the necessaries documents required by Federal Grant.

Auditee Response:

Instruction was given to the coordinator of federal program to included in the participant file all of the necessaries information.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2002

C. REPORTABLE CONDITION FEDERAL PROGRAMS

Section 8 / Existing 2002-8

Condition:

Incompatible functions of Section 8 coordinator.

Criteria:

General accepted accounting principles required segregation of functions to maintain good internal control system.

Effect of the condition:

Approval of benefits to participant without meet the program requirements and in consequence a questionable cost.

Recommendation:

Distribute the functions of the coordinator in order to improve the internal control functions in this area.

Auditee Response:

The auditee agreed with the recommendation, the finding are under evaluation and differents alternatives were considered according to the budgetary limitation of the municipality.

Section 8 / Existing 2002-9

The waiting list maintained by the municipality did not meet the requirement of Federal Grant.

Criteria:

The administrative plan of Section 8 and Existing bring the criteria that will follow the proper waiting list.

Effect of condition:

Base on the current waiting list system exist the possibility of bring program benefit to one participant over another with priority rights.

Recommendation:

Proper waiting list must be prepared according Section 8 and Existing manual.

Auditee Response:

The auditee agree with the recommendation and instruction was given to the coordinator of Section 8 to purge the list and established waiting list according to the program manual.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASSED THROUGH GRANTOR NUMBER	FEDERAL DISBURSEMENT EXPENDITURES
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**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

Housing Choice Voucher	14.855	N/A	348,533
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**PASSED THROUGH P.R. MUNICIPAL SERVICES
ADMINISTRATION BLOCK GRANT - NON ENTITLEMENT**

SBGP (Consolidation)	14.228	→ 92-FD-20	913,818
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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (H.H.S)

Community Service Block Grant	93.569		21,944
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U.S. DEPARTMENT OF JUSTICE

Community Oriented Policing Services	16.710		82,420
Crime Victims Assistance Grant	16.575		<u>34,873</u>
			117,293

OTHERS FINANCIAL ASSISTANCE

US FEDERAL EMERGENCY MANAGEMENT AGENCY	83.544		<u>37,217</u>
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TOTAL FEDERAL ASSISTANCE	<u>\$1,438,805</u>
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→ Mayor Program

See accompanying notes to schedule of federal financial assistance

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 - GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activities of all federal financial assistance programs of the Municipality of Comerío, Puerto Rico. The Municipality reporting entity is defined in Note 1 to the Municipality's general purpose financial statements. All federal financial assistance passed through other governmental agencies, are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Assistance is presented using the modified accrual basis of accounting, which is described in Note 1 of the Municipality's general purpose financial statements.

NOTE 3 - RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Revenues and expenditures of the Federal Financial Assistance Programs are included in the Municipality's general-purpose financial statements within the Special Revenues. The reconciliation between the expenditures in the general purpose financial statements and expenditures in the Schedule of Federal Financial Assistance is as follows:

Expenditures in the general-purpose financial statements:

Special Revenues Fund	\$2,712,379
Capital Project Fund	<u>1,045,076</u>
	3,757,455
Less non-federal expenditures	<u>(2,318,650)</u>
Expenditures in the Schedule of Federal Financial Assistance	<u>\$1,438,805</u>

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2002**

The Municipality of Comerio has been the subject of 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.

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2001, dated December 5, 2001	<p>1 - FIXED ASSETS</p> <p>During our examination of the fixed assets, the following deficiencies were noted:</p> <ul style="list-style-type: none"> a) There are no control procedures to ascertain that all applicable expenditures are properly recorded in the fixed assets properly ledger. b) The subsidiary ledger is not reconciled with the Municipality's accounting records. c) The Municipality has not taken a physical inventory of its fixed assets to determine the existence and condition of the property recorded in the subsidiary. d) The property records do not provide the necessary information to make the disclosures required by the 1980 GAFF (Governmental Accounting, Auditing, and Financial Reporting). e) The acquisition of fixed assets is not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis. <p>As a result of these situations, there is no adequate information available to properly classify the Municipality's property and equipment between land, buildings, equipment, and construction in progress.</p>		Condition Still prevail

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2002**

Audit report	Findings	Questioned costs	Actual status																		
Single audit for the year ended June, 30, 2001, dated December 5, 2001	2 - <u>PERSONNEL RECORD</u>		Condition Still prevail																		
	During our examination of the personnel record, the following deficiencies were note:																				
	A. The form number I-9 (Immigration form) required by law were missing in all personnel file examined (30).																				
	B. The employees record did not show that the governmental ethic laws was discussed with the employees.																				
	3 - <u>DISBURSEMENT TEST – GENERAL FUND</u>		Condition Still prevail																		
	The following exceptions were noted:																				
	<table border="1"> <thead> <tr> <th>Supplier</th> <th>CK_NO.</th> <th>A</th> <th>B</th> <th>C</th> <th>D</th> </tr> </thead> <tbody> <tr> <td>Computer Advantage</td> <td>1821</td> <td>X</td> <td>X</td> <td></td> <td></td> </tr> <tr> <td>Sidney Travel</td> <td>19378</td> <td>X</td> <td>X</td> <td>X</td> <td>X</td> </tr> </tbody> </table>	Supplier	CK_NO.	A	B	C	D	Computer Advantage	1821	X	X			Sidney Travel	19378	X	X	X	X		
Supplier	CK_NO.	A	B	C	D																
Computer Advantage	1821	X	X																		
Sidney Travel	19378	X	X	X	X																
	<ul style="list-style-type: none"> A) Requisition form without amount committed B) Requisition form without budget account C) Without three quotation D) Without invoice 																				

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COMERIO
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2002**

Audit report	Findings	Questioned costs	Actual status
Single audit for the year ended June, 30, 2001, dated December 5, 2001	4 - <u>ACCOUNTS RECEIVABLE</u>		Condition Still prevail
	CONDITION: At June 30, 2001 several accounts receivable were due; and effort by the finance personnel to collect this resources (\$125,200).		
	EXISTING COST/COMMENTS		Condition Still prevail
	CONDITION: The Municipality has not established effective cash management procedures.		