

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE COROZAL

AUDITORIA 2000-01

30 DE JUNIO DE 2001

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001*

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying general-purpose financial statements of the Municipality of Corozal, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Municipality of Corozal management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

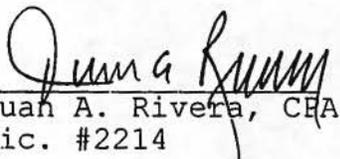
I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable 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 5, the Municipality of Corozal 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 group amounting to \$6,275,744.

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 Corozal as of June 30, 2001, 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 17, 2001 on my consideration of the Municipality of Corozal 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 17, 2001
Bayamón, Puerto Rico

NOTE: Stamp No. 1757835 of the Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

MUNICIPALITY OF COROZAL
 COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES
 AND ACCOUNT GROUP
 AS OF JUNE 30, 2001

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND	ACCOUNT GROUPS		Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	CAPITAL PROJECTS	AGENCY	General Fixed Assets	General Long-term Debts	
<u>ASSETS AND OTHER DEBITS</u>								
Cash	\$100,106	\$582,237		\$77,827	\$154,722			\$914,892
Cash with fiscal agent			\$943,594					943,594
Investment	2,612,655							2,612,655
Accounts Receivable :								
Patent receivable	59,024							59,024
Rent receivable	46,547							46,547
Due from government agencies	702,955							702,955
Due from special revenue fund	332,944							332,944
Due from general fund		625,386		160,060				785,446
General Fixed Assets						\$6,275,744		6,275,744
Amount in debt service fund							\$943,594	943,594
Amounts to be provided to:								
Compensate employees benefits							944,223	944,223
Repay General Obligations							1,746,655	1,746,655
TOTAL ASSETS	3,854,231	1,207,623	943,594	237,887	154,722	6,275,744	3,634,472	16,308,273
<u>LIABILITIES AND FUND EQUITY</u>								
Accounts payable & accrued expenses	138,678	136,168			154,722			429,568
Due to state government agencies	301,331							301,331
Deferred revenues	553,194							553,194
Due to special revenue fund	785,446							785,446
Due to general fund		332,944						332,944
Advances from "CRIM "							983,956	983,956
Accrued employees benefits							944,223	944,223
General obligations:								
Advances-dept of agric. fed							751,293	751,293
Bonds							145,000	145,000
Notes							810,000	810,000
TOTAL LIABILITIES	1,778,649	469,112			154,722		3,634,472	6,036,955
<u>FUND EQUITY</u>								
Investment in general fixed assets						6,275,744		6,275,744
Reserve for encumbrances	317,858							317,858
Reserve for debt service			943,594					943,594
Designated for future year expenditures		738,511		237,887				976,398
Undesignated Fund	1,757,724							1,757,724
TOTAL FUND EQUITY	2,075,582	738,511	943,594	237,887				10,271,318
TOTAL LIABILITIES & FUND EQUITY	\$3,854,231	\$1,207,623	\$943,594	\$237,887	\$154,722	\$6,275,744	\$3,634,472	\$16,308,273

See accompanying notes to General Purpose Financial Statements

MUNICIPALITY OF COROZAL
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2001

GENERAL FUND TYPES

	General Fund	Special Revenue Fund	Debt Service Fund	Capital project Fund	Total Memorandum Only
REVENUES:					
Property tax	\$1,260,116		\$406,673		\$1,666,789
Intergovernmental Grants	5,449,148				5,449,148
Volume of business tax		\$5,415,112		\$961,148	5,415,112
Interest	879,405				879,405
Construction - Excise taxes	183,320		38,714		222,034
Transportation	197,288				197,288
Rent	78,265				78,265
Miscellaneous	150,290				150,290
	515,055				515,055
TOTAL REVENUES:	8,712,887	5,415,112	445,387	961,148	14,573,386
EXPENDITURES:					
General Administration	4,998,976	453,446			5,452,422
Public Works	1,699,148	4,561,325			6,260,473
Health	352,506				352,506
Civil Defense	251,760	711			252,471
Sanitation	746,925	3,860			750,785
Sports and Recreation	258,781	197,761			456,542
Municipal Police	126,634				126,634
Warfare	110,594	47,111			157,705
Housing		462,376			462,376
Debt service: Principal and interest			148,198		148,198
Capital outlays				1,402,282	1,402,282
TOTAL EXPENDITURES:	8,545,324	5,726,590	148,198	1,402,282	14,420,112
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	167,563	(311,478)	297,189	(441,134)	153,274
OTHER FINANCING SOURCES (USES):					
Transferred in	38,433				
Transferred out			(38,433)		
TOTAL	38,433	0	(38,433)	0	
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	205,996	(311,478)	258,756	(441,134)	153,274
Fund balance (Deficit), beginning	1,869,586	1,049,989	684,838	679,021	3,604,413
Fund balance (Deficit), ending	\$2,075,582	\$738,511	\$943,594	\$237,887	\$3,995,574

See notes to General Purpose Financial Statements

MUNICIPALITY OF COROZAL
STATEMENT OF REVENUES, EXPENDITURES
Budget and Actual - General and Debt services funds
FOR THE YEAR ENDED JUNE 30, 2001

	<u>GENERAL FUND</u>			<u>DEBT SERVICE FUND</u>			<u>TOTAL (MEMORANDUM ONLY)</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:									
Property tax	\$1,260,116	\$1,260,116	\$0	\$324,838	\$445,388	\$120,550	\$1,584,954	\$1,705,504	\$120,550
Intergovernmental	4,839,834	4,746,193	(93,641)				4,839,834	4,746,193	(93,641)
Volume of business tax	1,000,000	841,115	(158,885)				1,000,000	841,115	(158,885)
Interest	140,000	183,320	43,320				140,000	183,320	43,320
Construction - Excise taxes	250,000	197,288	(52,712)				250,000	197,288	(52,712)
Rent	42,000	103,742	61,742				42,000	103,742	61,742
Miscellaneous	354,500	593,320	238,820				354,500	593,320	238,820
TOTAL REVENUES:	7,886,450	7,925,094	38,644	324,838	445,388	120,550	8,211,288	8,370,482	159,194
EXPENDITURES:									
Municipal Council	84,458	77,434	(7,024)				84,458	77,434	7,024
Mayor Office	971,359	943,386	(27,973)				971,359	943,386	27,973
Finance	2,837,037	2,942,785	105,748				2,837,037	2,942,785	(105,748)
Public Work	2,006,014	1,932,876	(73,138)				2,006,014	1,932,876	73,138
Health	352,507	352,506	(1)				352,507	352,506	1
Civil Defense	252,599	251,760	(839)				252,599	251,760	839
Municipal Police	128,926	126,634	(2,292)				128,926	126,634	2,292
Personnel	89,053	88,087	(966)				89,053	88,087	966
Sport and Recreation	272,994	258,781	(14,213)				272,994	258,781	14,213
Sanitation	755,284	746,925	(8,359)				755,284	746,925	8,359
Elderly center	112,307	110,594	(1,713)				112,307	110,594	1,713
Internal Audit	23,912	23,097	(815)						
Long-term Debts Amortization				324,838	186,631	(138,207)	324,838	186,631	138,207
TOTAL EXPENDITURES:	7,886,450	7,854,865	(31,585)	324,838	186,631	(138,207)	8,211,288	8,041,496	(169,792)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	\$0	\$70,229	\$70,229	\$0	\$258,757	\$258,757	\$0	\$328,986	\$328,986

See notes to General Purpose Financial Statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of Corozal (the Municipality) was established in 1616. The Municipality's governmental system consists of an executive and a legislative body. It is governed by a Mayor and a eighteenth (18) member 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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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

B. BASIC OF PRESENTATION - CONTINUED

Governmental Fund Types

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

General Fund - The general fund is the principal 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 bonds payable are recorded and other obligations.

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

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:

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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

C. BASIS OF ACCOUNTING

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality'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 position 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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

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.
- 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.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001*

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

E. BUDGETARY DATA - CONTINUED

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

	<u>Revenues</u>	<u>Expenditures</u>
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - General Fund	\$ 8,712,887	\$8,545,324
Adjustments:		
Add:		
Current year encumbrances recognized as expenditures in the budgetary basis		317,858
Deduct:		
Non budgetary transactions		
Payment of "Resultas"	-0-	(706,986)
Accounts Payable and Intra Governmental Accruals	(702,955)	(301,331)
Rent and Patent Receivable	(84,838)	-0-
	-----	-----
Budgetary Basis	\$ 7,925,094	\$7,854,865

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, 1997, is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department in its name.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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

F. CASH - CONTINUED

	<u>Total</u>	<u>Insurance by FDIC</u>	<u>Insurance by collateral in Treasury Dept. of P.R.</u>
B.P.P.R.	\$2,000,000	\$100,000	\$1,900,000
B.G.F.	612,655	100,000	512,655
	-----	-----	-----
	\$2,612,655	\$200,000	\$2,412,655
	=====	=====	=====

G. INTERFUND TRANSACTIONS

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

H. RESERVATION OF FUND BALANCE

Reservation of fund balance is those portions of fund balances that are not appropriable for expenditure or that are legally segregated for a specific future use. 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. Vacation may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. 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. Employees' entitled vacation and sick leave are accrued in the General Long-Term Debt Account Group.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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

J. INSURANCE

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

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.

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 COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001*

NOTE 2 - PROPERTY TAXES - CONTINUED

The annual tax rate for fiscal year 1997 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 COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001*

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:

- Financial Institutions	1.25%
- Other Organizations	.50%

The tax is payable in two equal semi-annual installments on July 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 and the Puerto Rico Telephone Company 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 COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 5 - GENERAL FIXED ASSETS

General fixed assets have acquired for general governmental purposes. Assets purchases are recorded as expenditures of various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Assets dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. The Municipality has not maintained adequate records for its fixed assets, and management was not able to make a assertion as to the completeness of the General Fixed Assets Account Group. However, the finance department at present is in the process of updating these records in order to maintain a proper system in is future.

The Municipality's management has estimated its real property and other fixed assets as follows.

Real Property and Vehicles	\$ 3,747,414
Buildings, Equipment and Other	2,528,330

Total Fixed Assets	<u>\$ 6,275,744</u>

NOTE 6 - GENERAL LONG-TERM DEBT

The general long-term debt transactions as of June 30, 2001 are as follows:

Balance at July 1, 2000	\$1,072,000
Additions during the year	-0-
Amortization during the year	(117,000)

	<u>\$ 955,000</u>
	=====

BONDS

Series of 1983 - \$250,000 payable In annual installments of 2,000 to 7,000 until year 2009; with interest at 9.3/4%	\$145,000
---	-----------

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001*

NOTE 6 - GENERAL LONG TERM-DEBT - CONTINUED

LOANS

400,000 loan special lottery fund loan payable in quarterly installments of 15,000 until 2008, plus interest at 8%	360,000
630,000 loan municipal general obligation note payable in semi annually installments of \$85,000 to 125,000 until June 2004 plus interest at 8%	450,000

SUB-TOTAL	955,000
Advances from CRIM	983,956
\$1,300,000 promise to pay to United States Department of Agriculture - rural development That to be used before November 7, 2007. The advances from governmental bank requires Monthly payments of interest at 4.875%. The total advances at audit date were \$751,293.	751,293
Compensation Employees Benefits (Vacation, Sick leaves	944,223

	\$3,634,472

The annual requirements to amortize the general long-term debt outstanding at June 30, 2001 is as follows:

	Bonds	Crim Over advances	Total
2002	\$ 191,356	\$ 144,800	\$ 336,156
2003	194,377	144,800	339,177
2004	191,902	144,800	336,702
2005	194,949	144,800	339,749
2006	65,785	144,800	210,585
Thereafter	504,554	724,024	1,228,578
	-----	-----	-----
Amount	1,342,923	1,448,024	2,790,947
Representing	387,923	464,068	851,991
Interest	-----	-----	-----
	\$ 955,000	\$ 983,956	\$1,938,956

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 6 - GENERAL LONG TERM-DEBT - CONTINUED

LOANS - CONTINUED

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 Corozal.

NOTE 7 - DEBT SERVICE FUND

Revenues for the Debt Service Fund mainly consist of the ad valor property taxes, 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 valor 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.

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, 1994, disclosed several 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2001

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.

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 8% of the participant's salary. Total contributions (both employer and employees) to the System made by the Municipality during the year ended June 30, 2001 amounted to \$453,312.

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, 2001, 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.



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

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

Compliance

I have audited the compliance of Municipality of Corozal 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, 2001. The Municipality of Corozal 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 Corozal management. My responsibility is to express an opinion on the Municipality of Corozal 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 Corozal 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 Corozal compliance with those requirements.

As described in item 2001-12 - 2001-13 in the accompanying schedule of findings and questioned costs, the Municipality of Corozal did not comply with requirements regarding cash management and reports submission that are applicable to its Section 8 Program. Compliance with such requirements is necessary, in my opinion, for the Municipality of Corozal to comply with the requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Corozal 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, 2001.

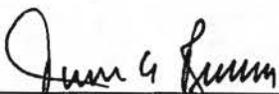
Internal Control Over Compliance

The management of the Municipality of Corozal 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 Corozal 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 Corozal 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 2001-12 and 2001-13.

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 17, 2001
Bayamón, Puerto Rico

NOTE: Stamp No. 1757836 Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.



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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 Corozal
Corozal, Puerto Rico

I have audited the financial statements of the Municipality of Corozal as of and for the year ended June 30, 2001, and has issued my report thereon dated December 17, 2001. 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 Corozal 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 items 2001-1 through 2001-13.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Municipality of Corozal 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 Corozal 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 2001-1 through 2001-13.

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 17, 2001
Bayamón, Puerto Rico

NOTE: Stamp No. 1757837 Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the general purpose financial statements of the Municipality of Corozal.
2. Reportable conditions disclosed during the audit of the financial statements are reported in the Schedule of Finding and Questioned Cost. Any of the conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the Municipality of Corozal were disclosed during the audit.
4. Thirteen 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 Corozal expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Municipality of Corozal are reported in Part C. of this Schedule.
7. The programs tested as major programs included: SBSP
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Municipality of Corozal was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

1. Accounting System - 2001-1

Condition: The Municipality's current accounting system does not comply with requirements established in Article E, Sections (3), (4) and (5) of the Regulation on Basic Standards for the Municipalities of Puerto Rico. Such sections provide:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001

B. REPORTABLE CONDITIONS

MATERIAL WEAKNESSES

1 - ACCOUNTING SYSTEM - 2001-1

The Municipality's current accounting system does not comply with requirements established in Article E, Sections (3), (4) and (5) of the Regulation on Basic Standards for the Municipalities of Puerto Rico. Such sections provide:

Section 3 - Municipal accounting shall be kept by funds and should be based on generally accepted accounting principles.

Section 4 - The accounting system should provide, among other things, the following:

- a) Proper records to enter all financial operations.
- b) Information that will serve as the basis for the effective control of revenues, expenditures, property, etc.
- c) Complete information on the financial condition and results of operations of the different municipal funds and administrative units.
- d) Information necessary for the preparation of reliable, periodic, special and annual reports.

Section 5 - As an essential part of said system, the following should be included:

- a) Original documents to serve as evidence of financial operations.
- b) Original entry books wherein operations are recorded as they take place.
- c) Final entry books with the aim of making a monthly summary of transactions posted into the original entry records and gathering the information needed for the preparation of financial statements and reports.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

MATERIAL WEAKNESSES

1 - ACCOUNTING SYSTEM - 2001-1 (CONTINUED)

- d) Fiscal procedures for the system's operations, establishing proper internal control and the prevention of irregularities. Said procedures should provide, further, for the timely and orderly performance of operations and should include, among other, the necessary records, files, reconciliations, adjustments, closing entries and reports.

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. Additionally, we noted that certain records in use were not adequately maintained or posted on a timely basis.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2001, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons and from numerous accounting records which are not integrated. This situation can cause the financial statements to not present all the assets, liabilities, revenues and expenditures of the Municipality.

Auditee Response:

The Municipality is tie to the accounting system provided by "OCAM" (Governmental agency that provide financial assistance to all Municipalities in Puerto Rico by law). The current accounting system is not fully implemented. The finance director said that the accounting system is not fully implemented because the human resources are not enough for the department responsibilities. The mayor are under analysis to bring the necessary support to correct this situation.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

MATERIAL WEAKNESSES

2 - INADEQUATE ACCOUNTING RECORDS, PRACTICES AND OVERSIGHT
RESPONSIBILITY -2001-2

The accounting records maintained by the Federal programs are not reconciled with the accounting records maintained by the Municipality's Central Accounting Department. The Municipality has not established adequate procedures for the reconciliation of the transactions recorded in the programs accounting records with those recorded in the Municipality's central accounting department records.

This condition may allow for inaccurate reporting of programs supported activities and inadequate control of budgeted cost. OMB Circular A-102 requires recipients of federal funds to have a financial management systems that provides for accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the federal programs.

Recommendation:

The Municipality should establish procedures to provide for the monthly closing of the accounting records and the reconciliation of these records with those maintained at the central accounting department. Therefore, improving the overall internal control system and complying with the requirement of an adequate financial management system.

Auditee Response:

The new federal program director was instructed to reconcile every month the federal program financial figures against the financial figures maintained as the central accounting department of the Municipality.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

3 - FIXED ASSETS -2001-3

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 are 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.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

3 - FIXED ASSETS - 2001-3 (CONTINUED)

- c) Revise the property records to provide the information necessary to make the disclosures required by the 1980 GAARF, which consist of the following:
- General fixed assets by source
 - General fixed assets by function and activity classifications for each major asset class
 - Changes in general fixed assets by function and activities
 - Changes in general fixed assets by major assets class
- d) Designate a person to analyze the expenditure accounts to identify and prepare a report of all items that should be included in the property records. This report should be sent to the property custodian to reconcile and update the property ledger.

Auditee Response:

The Municipality will take physical inventory for all of the Municipality's properties in the next year to correct the weakness mentioned above and comply with GASB Num. 34

4 - ACCOUNTS PAYABLE AND ENCUMBRANCES - 2001-4

Under the Municipality's current accounting system, there is no segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when the purchase order is issued. Accordingly, the accounts payable balance in Municipality's general purpose financial statements may include both actual liabilities and amounts for which the goods or services had not been received at year end.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

5 - ACCOUNTS PAYABLE AND ENCUMBRANCES - 2001-5

Recommendation:

The Municipality should establish procedures to clearly distinguish between encumbrances and amounts actually owed for goods and services received at year end. Governmental generally accepted accounting principles require that purchase orders issued for which the goods or services have not been received at year end be reported as an encumbrance, while the goods or services received but not paid at year end according General Accounting Principles will be recorded as a liability.

Auditee Response:

The Municipality will enforce the current procedures to avoid the mentioned situation in the future. The Finance Director was instructed to finalized the implementation of the accounting system that will provide the necessary information to comply with GAAP financial statement.

6. CONDITION - THE MUNICIPALITY HAS NOT MAINTAIN SEPARATE BANK ACCOUNT FOR THE RESOURCES OF CAPITAL PROJECT BY LEGISLATIVE GRANTS - 2001-6

CRITERIA:

The article 7.007 (B) of law number 81 amended by the law number 72 of August 11, 1997; established that special legislative grants must be maintained separate bank account.

EFFECT:

As part of my test I noted that the operating bank account had more resources that the amount belonging to this fund.

CAUSE:

This condition might propitiate that the fund assigned to special projects can be used to another purposes.

RECOMMENDATION:

Special bank account must be open immediately.

AUDITEE RESPONSE:

The municipality officials accept the recommendation.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPPORTABLE CONDITIONS - CONTINUED

7. CONDITION: MAYOR CONSTRUCTION PROJECTS WITHOUT PROPER
GUBERNMENTAL AUTHORIZATION - 2001-7

CRITERIA:

The law number 76 of June 24, 1975 (Ley Orgánica de Reglamentos y Permisos) Established that any construction projects required construction permit before start the project.

EFFECT:

The project may not be in accordance of construction standards.

CAUSE:

The Municipality was exposed to that the design of the project may be not in accordance with the law and regulations applicable to the projects.

RECOMMENDATION:

The secretary office of the municipality will included this permit as condition to formalize contract.

AUDITEE RESPONSE:

The auditee accept the recommendation and the secretary director was instructed to follow this procedure.

8. CONDITION: BUDGET COMMITMENT SEVERAL DAYS AFTER CONTRACT WAS
FORMALIZED - 2001-8

CRITERIA:

Chapter VIII, part IV, section 2 (2) of the Governmental Basis Regulation established that the Municipality must committed the budget accounts of purchase for goods or contracts before issue the purchase order or sign the contract; with the intention that the fund will be available to pay the goods or professional services as rendered.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPPORTABLE CONDITIONS - CONTINUED

8. **CONDITION: BUDGET COMMITMENT SEVERAL DAYS AFTER CONTRACT WAS FORMALIZED**

EFFECT:

This situation do no permit maintain control over budget expenditures.

CAUSE:

Budget accounts will be over committed and affecting the budget control by finance department.

RECOMMENDATION:

Pre-approval of finance department before issued the purchase order or formalize the contract.

AUDITEE RESPONSE:

Finance director was instructed to established formal procedure to avoid this situation in the future.

9. CONDITION: INTERNAL CONTROL DEFICIENCIES IN THE COLLECTION DEPARTMENT - 2001-9

CRITERIA:

The law number 81 established that one of the function of the director of finance is supervise the cash collection area of the municipality and established the necessary regulations in order to protect and safeguard the municipality resources, and municipality property (article 6.00J (C) and (F)).

EFFECT:

Irregularities and fraud might occur.

CAUSE:

This condition might be allow the embezzlement of the municipality resources.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

B. REPORTABLE CONDITIONS - CONTINUED

9. CONDITION: INTERNAL CONTROL DEFICIENCIES IN THE COLLECTION DEPARTMENT (CONT.)

RECOMMENDATION:

Enforce the current procedure in order to comply with the law.

AUDITEE RESPONSE:

The finance director was instructed to enforce the current procedure and established the necessary regulation in the cash collection section to protect the municipality resources.

10. CONDITION: LACK OF FORMAL PROCEDURE TO CONTRACT OR PURCHASE THROUGH THE QUOTATIONS METHOD - 2001-10

CRITERIA:

The article 6.007 (E) of law number 81 established that the municipalities might incorporate procedures to improve the internal control to compliance with the laws, ordinances, resolutions and regulations in general.

EFFECT:

This condition might permit irregularities in the contract adjudication.

CAUSE:

This situation might permit contract or purchase order adjudication in detriment of municipality resources.

RECOMMENDATION:

Submitted the new purchase procedure for the necessary municipality management level approval.

AUDITEE RESPONSE:

New purchase procedure was prepared and presented to the municipality assembly in November 2001 and expect to be approved and enter in function by January 2002.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

REPORTABLE CONDITIONS - CONTINUED

11. CONDITION: INCOMPATIBLE FUNTION IN FINANCE DEPARTMENT - 2001-11

CRITERIA:

General Accepted Accounting Priciples required segregation of incompatible function to avoid irregularities.

EFFECT:

As part of my test, noted that the general office clerk realized differents incompatibles functions.

CAUSE:

The Municipality are exposed to irregularities with out the internal control system that can detect its.

RECOMMENDATION:

Implement internal control system with segregation of functions, cash, disbursements and accounts payable section.

AUDITEE RESPONSE:

The auditee accept the finding and explained that this situation was cause by the shortage of personnel in finance department. The mayor are under analysis of this condition.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001*

C - REPORTABLE CONDITION FEDERAL PROGRAMS - CONTINUED

SECTION 8

EXISTING

COSTS/COMMENTS - 2001-12

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 its housing in assistance payments after five days eleven of twelve months as 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.

5. Recommendation: Coordination between finance department and federal section will be establish 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 Stated requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF FINDINGS AND QUESTIONED COST
JUNE 30, 2001

C - REPORTABLE CONDITION FEDERAL PROGRAMS - CONTINUED

SECTION 8
GRANT NO:
RO46-EO23-001/004

QUESTIONED

COSTS/COMMENTS - 2001-13

Section 8 and Public Housing

1. Condition: My review of the HUD reports of (Forms HUD-52663, 52681, 52595) revealed that it was submitted at the required date.
2. Criteria (Legal Requirement): According to HUD Handbook 7420.7 (Forms HUD-52663, 52681, 52595), must be submitted at least 90 calendar days before the beginning of each public housing agency fiscal year.
3. Recommendation: The Municipality should implement procedure to provide for the preparation of the Forms HUD-52663, 52681, 52595, immediately at the end of each fiscal year to comply with the established regulation.
4. Auditee Response: Recommendation was adopted and reports will be submitted by requirement date. New federal personnel s contracted.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2001**

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASSED THROUGH GRANTOR NUMBER	TOTAL EXPENDITURES FEDERAL FUNDS
---	---------------------------	--	--

**U.S. DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

Direct Program: Section 8 Programs	14.156	N/A	\$ 428,085
Existing Housing and State Agency Program	14.156	N/A	97,827
			----- 525,912

**PASSED THROUGH P.R. MUNICIPAL SERVICES
ADMINISTRATION BLOCK GRANT - NON ENTITLEMENT**

SBGP 95(Consolidation)	14.228	→ 92-FD-20	3,351,411
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HEALTH AND HUMAN SERVICES

Title III	93-045		48,884
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OTHERS FINANCIAL ASSISTANCE

FEMA	83.520		29,337
Agriculture Fed.	10.427		10,828

Total Federal Assistance			<u>\$ 3,966,372</u>
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→ Mayor Program

See accompanying notes to schedule of federal financial assistance

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001*

NOTE 1 - GENERAL

The accompanying Schedule of Federal Financial Assistance presents the activities of all federal financial assistance programs of the Municipality of Corozal, 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	\$5,726,590
Capital Project Fund	1,402,282

	7,128,872
 Less non-federal expenditures	 (3,162,500)

 Expenditures in the Schedule of Federal Financial Assistance	 \$3,966,372
	=====

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

FISCAL YEAR ENDED
JUNE 30, 1998 (CONTINUED)

SECTION 8
GRANT NO:
R046-EO23-001/004
COSTS/COMMENTS

QUESTIONED

Estimated of Total Required Annual Contribution

1. Condition: My review of the supporting Data for Annual Contribution, Form HUD-52673), revealed that it was submitted 6 days after the required data.
2. Status: Similar finding was note during 2001 audit.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

FISCAL YEAR ENDED
JUNE 30, 1998 (CONTINUED)

SECTION 8
GRANT NO:
R046-EO23-001/004
COSTS/COMMENTS

QUESTIONED

Supporting Data for Annual Contribution

1. Condition: My review of the supporting Data for Annual Contribution, (Form HUD-H52672), revealed that it was submitted 6 days after the required data.
2. Status: Similar finding was note during 2001 audit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001

1 - ACCOUNTING SYSTEM - 2000-1

The Municipality's current accounting system does not comply with requirements established in Article E, Sections (3), (4) and (5) of the Regulation on Basic Standards for the Municipalities of Puerto Rico. Such sections provide:

Section 3 - Municipal accounting shall be kept by funds and should be based on generally accepted accounting principles.

Section 4 - The accounting system should provide, among other things, the following:

- a) Proper records to enter all financial operations.
- b) Information that will serve as the basis for the effective control of revenues, expenditures, property, etc.
- c) Complete information on the financial condition and results of operations of the different municipal funds and administrative units.
- d) Information necessary for the preparation of reliable, periodic, special and annual reports.

Section 5 - As an essential part of said system, the following should be included:

- a) Original documents to serve as evidence of financial operations.
- b) Original entry books wherein operations are recorded as they take place.
- c) Final entry books with the aim of making a monthly summary of transactions posted into the original entry records and gathering the information needed for the preparation of financial statements and reports.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

1 - ACCOUNTING SYSTEM - 2000-1 (CONTINUED)

- d) Fiscal procedures for the system's operations, establishing proper internal control and the prevention of irregularities. Said procedures should provide, further, for the timely and orderly performance of operations and should include, among other, the necessary records, files, reconciliation's, adjustments, closing entries and reports.

The Municipality's accounting system only provides for the recording of revenues and expenditures and other limited transactions. In addition, the accounting records are not integrated, and a double entry system (debits and credits) is not used. Additionally, we noted that certain records in use were not adequately maintained or posted on a timely basis.

Due to the deficiencies above mentioned, the examination of the financial statements for the year ended June 30, 2000, was more difficult and less efficient than would have been in ordinary circumstances. Since the accounts and other records are not designed to provide the information as is presented in financial statements, it was necessary to obtain such information from various departments and persons and from numerous accounting records which are not integrated. This situation can cause the financial statements to not present all the assets, liabilities, revenues and expenditures of the Municipality.

CURRENT STATUS: STILL PREVAIL

2 - LONG-TERM DEBT 2000-2

The Municipality does not maintain adequate records of its outstanding long-term obligations, and, consequently, relies on the notifications from the Government Development Bank of Puerto Rico (GDB) to acknowledge the balance of the outstanding debt and the amounts needed to fund its debt service.

CURRENT STATUS: CORRECTED

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

3 - INADEQUATE ACCOUNTING RECORDS, PRACTICES AND OVERSIGHT
RESPONSIBILITY -2000-3

The accounting records maintained by the Federal programs are not reconciled with the accounting records maintained by the Municipality's Central Accounting Department. The Municipality has not established adequate procedures for the reconciliation of the transactions recorded in the programs accounting records with those recorded in the Municipality's central accounting department records.

This condition may allow for inaccurate reporting of programs supported activities and inadequate control of budgeted cost. OMB Circular A-102 requires recipients of federal funds to have a financial management systems that provides for accurate, current and complete records of the financial results of federally assisted activities in accordance with the financial reporting requirements of the federal programs.

CURRENT STATUS: STILL PREVAIL

1 - FIXED ASSETS -2000-4

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 are not always informed to the property custodian for the updating of the fixed assets ledger on a timely basis.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

1 - FIXED ASSETS -2000-4 (CONTINUED)

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.

CURRENT STATUS: STILL PREVAIL

2 - ACCOUNTS PAYABLE AND ENCUMBRANCES - 2000-5

Under the Municipality's current accounting system, there is no segregation between items representing actual accounts payable and those representing encumbrances because the liability is recognized when the purchase order is issued. Accordingly, the accounts payable balance in Municipality's general purpose financial statements may include both actual liabilities and amounts for which the goods or services had not been received at year end.

CURRENT STATUS: STILL PREVAIL

C -REPORTABLE CONDITION FEDERAL PROGRAMS

2000-6

SECTION 8

GRANT NO:

RO46-EO23-001/004

COSTS/COMMENTS

1. Condition: During my examination of 26 tenant files of the Housing Assistance Payments Program, I found uncompleted or not update files in relation with the tenants eligibility information required by HUD; and internal control system designed by the Municipality; as detail as follows:
2. Status: No similar situation was encountered in 2001 audit.

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

C -REPORTABLE CONDITION FEDERAL PROGRAMS

3 - CONTRACTS COMPLIANCE - 2000-7

Statement of Condition:

Form 12 contract files selected for examination and the following deficiencies were noted:

- a. 7 contracts of professional services did not include the clause of the requirements to comply with ethic rules.
- b. 1 contracts did not provide the account on which the funds for payments were encumbered.
- c. 2 contracts did not included the clause related to alimony obligation.

CURRENT STATUS: CORRECTED

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

C -REPORTABLE CONDITION FEDERAL PROGRAMS

2000-8

SECTION 8

GRANT NO:

RO46-EO23-001/004

COSTS/COMMENTS

Tenant	AF	IF
Clara Díaz		X
Mercedes Ríos	X	
María C. Alicea	X	

IF - Inspection Form

AF - Application Form Without Signature

CURRENT STATUS: CORRECTED

*COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF COROZAL
SCHEDULE OF PRIOR YEARS AUDIT FINDINGS
JUNE 30, 2001*

2000-9

SECTION 8
EXISTING
COSTS/COMMENTS

1. Condition: The Municipality has not established effective cash management procedures.

CURRENT STATUS: STILL PREVAIL

2000-10

SECTION 8
GRANT NO:
RO46-EO23-001/004

COSTS/COMMENTS

Balance Sheet - Section 8 and Public Housing

1. Condition: My review of the report of balance sheet, (Form HUD-52695), revealed that it was submitted at the required data.

CURRENT STATUS: Not applicable - Not submission required.