

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

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

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE COROZAL**

**AUDITORIA 2001-02**

**30 DE JUNIO DE 2002**

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DIVISION RECLAMACION,  
E INTERVENCION

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF COROZAL**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2002**

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

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report on General Purpose Financial Statements	1-2
General Purpose Financial Statements:	
Combined Balance Sheet-All Governmental Fund Types and Accounts Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types	4
Statement of Revenues, Expenditures Budget and Actual - General and Debt Services Funds	5
Notes to General Purpose Financial Statements	6-18
Report on Compliance with Requirements Applicable to each major program and on internal control Over Compliance in Accordance with OMB Circular A-133	19-21
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	22-23
Schedule of Findings and Questioned Cost	24-32
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Prior Years Audit Findings	35-38

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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, 2002, 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.

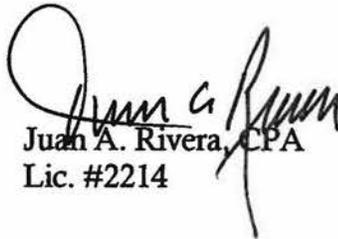
I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable 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 groups amounting to \$14,903,881

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, 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 8, 2002 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 8, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855563 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, 2002**

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND	ACCOUNT GROUPS		
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects	Agency	General Fixed Assets	General Long-term Debts	Total Memorandum Only
<b><u>ASSETS AND OTHER DEBITS</u></b>								
Cash	\$864,171	\$825,683		\$331,542	\$84,675			\$2,106,071
Cash with fiscal agent	28,389		\$1,251,603	1,303,921				2,583,913
Investment	2,081,119	545,488						2,626,607
Accounts Receivable :								
Patent receivable	19,516							19,516
Rent receivable	284							284
Due from government agencies	1,002,092							1,002,092
Other accounts receivable	667,667							667,667
General Fixed Assets						\$14,903,881		14,903,881
Amount in debt service fund							\$1,251,603	1,251,603
Amounts to be provided to:								
Compensate employees benefits							1,070,272	1,070,272
Repay General Obligations							2,770,462	2,770,462
<b>TOTAL ASSETS</b>	<b>4,663,238</b>	<b>1,371,171</b>	<b>1,251,603</b>	<b>1,635,463</b>	<b>84,675</b>	<b>14,903,881</b>	<b>5,092,337</b>	<b>29,002,368</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>								
Bank over draft	82,722							82,722
Accounts payable & accrued expenses	320,437	12,050			84,675			417,162
Due to state government agencies	1,288,325							1,288,325
Deferred revenues	541,090	406,191						947,281
Advances from "CRIM "							1,133,772	1,133,772
Accrued employees benefits							1,070,272	1,070,272
General obligations:								
Advances-dept of agric. fed							751,293	751,293
Bonds							1,442,000	1,442,000
Notes							695,000	695,000
<b>TOTAL LIABILITIES</b>	<b>2,232,574</b>	<b>418,241</b>			<b>84,675</b>		<b>5,092,337</b>	<b>7,827,827</b>
<b><u>FUND EQUITY</u></b>								
Investment in general fixed assets						14,903,881		14,903,881
Reserve for encumbrances	403,624	43,305						446,929
Reserve for debt service			1,251,603					1,251,603
Designated for future year expenditures		909,625		1,635,463				2,545,088
Undesignated Fund	2,027,040							2,027,040
<b>TOTAL FUND EQUITY</b>	<b>2,430,664</b>	<b>952,930</b>	<b>1,251,603</b>	<b>1,635,463</b>				<b>21,174,541</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$4,663,238</b>	<b>\$1,371,171</b>	<b>\$1,251,603</b>	<b>\$1,635,463</b>	<b>\$84,675</b>	<b>\$14,903,881</b>	<b>\$5,092,337</b>	<b>\$29,002,368</b>

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, 2002**

	GENERAL FUND TYPES				Total Memorandum Only
	General Fund	Special Revenue Fund	Debt Service Fund	Capital project Fund	
<b>REVENUES:</b>					
Property tax	\$1,541,065		\$459,406		\$2,000,471
Intergovernmental Grants	5,286,067				5,286,067
Volume of business tax	829,962	\$2,108,834		\$614,042	2,108,834
Interest	104,156		18,408		122,564
Construction - Excise taxes	283,140				283,140
Rent	208,786				208,786
Miscellaneous	334,315				334,315
<b>TOTAL REVENUES:</b>	<b>8,587,491</b>	<b>2,108,834</b>	<b>477,814</b>	<b>614,042</b>	<b>11,174,139</b>
<b>EXPENDITURES:</b>					
General Administration	4,944,715	111,720			5,056,435
Public Works	1,814,211	401,590			2,215,801
Health	394,323				394,323
Civil Defense	230,794	4,022			234,816
Sanitation	903,407				903,407
Sports and Recreation	276,366	12,915			289,281
Municipal Police	154,951				154,951
Historic Center	15,844				15,844
Elderly Center	125,711	69,495			195,206
Housing		734,582			734,582
Debt service:					
Principal and interest			148,133		148,133
Capital outlays				480,316	480,316
<b>TOTAL EXPENDITURES:</b>	<b>8,860,322</b>	<b>1,334,324</b>	<b>148,133</b>	<b>480,316</b>	<b>10,342,779</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:</b>	<b>(272,831)</b>	<b>774,510</b>	<b>329,681</b>	<b>133,726</b>	<b>831,360</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Loan with BGF				1,310,000	
Transferred in (out)	627,913	(560,091)	(21,672)	(46,150)	
<b>TOTAL</b>	<b>627,913</b>	<b>(560,091)</b>	<b>(21,672)</b>	<b>1,263,850</b>	
<b>Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>355,082</b>	<b>214,419</b>	<b>308,009</b>	<b>1,397,576</b>	<b>831,360</b>
<b>Fund balance (Deficit), beginning</b>	<b>2,075,582</b>	<b>738,511</b>	<b>943,594</b>	<b>237,887</b>	<b>3,757,687</b>
<b>Fund balance (Deficit), ending</b>	<b>\$2,430,664</b>	<b>\$952,930</b>	<b>\$1,251,603</b>	<b>\$1,635,463</b>	<b>\$6,270,660</b>

See notes to General Purpose Financial Statements

MUNICIPALITY OF COROZAL  
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)
<b>REVENUE:</b>									
PROPERTY TAX	\$1,541,065	\$1,541,065	\$0				\$1,541,065	\$1,541,065	\$0
INTRAGOVERNMENTAL	5,111,442	5,286,067	174,625				5,111,442	5,286,067	174,625
VOLUME OF BUSINESS TAX	820,935	829,962	9,027				820,935	829,962	9,027
EXCISE TAX	279,829	283,140	3,311				279,829	283,140	3,311
INTEREST	102,412	104,156	1,744				102,412	104,156	1,744
RENT	199,673	208,786	9,113				199,673	208,786	9,113
MISCELLANEOUS	366,956	334,315	(32,641)				366,956	334,315	(32,641)
DEBT SERVICE				\$383,874	\$517,503	\$133,629	383,874	517,503	133,629
<b>TOTAL REVENUE</b>	<b>8,422,312</b>	<b>8,587,491</b>	<b>165,179</b>	<b>383,874</b>	<b>517,503</b>	<b>133,629</b>	<b>8,806,186</b>	<b>9,104,994</b>	<b>298,808</b>
<b>EXPENDITURE:</b>									
MUNICIPAL COUNCIL	107,513	98,009	(9,504)				\$107,513	\$98,009	(9,504)
MAYOR OFFICE	938,720	931,124	(7,596)				938,720	931,124	(7,596)
FINANCE	3,175,446	3,157,500	(17,946)				3,175,446	3,157,500	(17,946)
PUBLIC WORK	1,933,311	1,929,531	(3,780)				1,933,311	1,929,531	(3,780)
HEALTH	394,323	394,323	0				394,323	394,323	0
CIVIL DEFENSE	231,040	230,794	(246)				231,040	230,794	(246)
MUNICIPAL POLICE	154,976	154,951	(25)				154,976	154,951	(25)
PERSONNEL	115,778	115,604	(174)				115,778	115,604	(174)
SPORT & RECREATIONS	279,662	279,152	(510)				279,662	279,152	(510)
SANITATION	908,796	908,592	(204)				908,796	908,592	(204)
ELDERLY CENTER	126,772	126,604	(168)				126,772	126,604	(168)
INTERNAL AUDIT	31,179	31,103	(76)				31,179	31,103	(76)
HISTORIC CENTER	24,796	16,011	(8,785)						
DEBT SERVICE				383,874	209,494	(174,380)	383,874	209,494	(174,380)
<b>TOTAL EXPENDITURE</b>	<b>8,422,312</b>	<b>8,373,298</b>	<b>(49,014)</b>	<b>383,874</b>	<b>209,494</b>	<b>(174,380)</b>	<b>8,781,390</b>	<b>8,566,781</b>	<b>(214,609)</b>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<b>\$0</b>	<b>\$214,193</b>	<b>\$214,193</b>	<b>\$0</b>	<b>\$308,009</b>	<b>\$308,009</b>	<b>\$24,796</b>	<b>\$538,213</b>	<b>\$513,417</b>

See Note to General Purpose Financial Statements

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2002**

**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 eighteen (18) members Municipal Assembly who is elected every four years through the Puerto Rico general elections governs it.

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, 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT.

B. **BASIC OF PRESENTATION – CONT.**

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, 2002**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - CONT.**

**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, 2002**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – CONT.**

**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, 2002**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT.**

**E. BUDGETARY DATA – CONT.**

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

	<b>Revenues</b>	<b>Expenditures</b>
Accounting basis per the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - General Fund	\$ 8,587,491	\$8,860,322
Adjustments:		
Add:		
Current year encumbrances recognized as expenditures in the budgetary basis		403,624
Deduct:		
Non-budgetary transactions		
Payment of "Resultas" Accounts Payable and Intra Governmental Accruals	-0-	(318,446)
		(290,791)
		<u>(281,411)</u>
Budgetary Basis	\$ 8,587,491	\$8,373,298

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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT.**

**F. CASH – CONTINUED**

Cash with fiscal agent represent cash held at the Governmental Development Bank for PR that is restricted for the payment of debt service, acquisition of equipment or construction of Major capital facilities. At June 30, 2002 the balance of cash retained by the Governmental Development Bank Amounted to \$1,251,603.

	Insurance by FDIC	Insurance by collateral in Treasury Dept. of P.R.	Total
B.P.P.R.	\$100,000	\$1,900,000	\$2,000,000
B.G.F.	100,000	526,607	626,607
	<u>\$200,000</u>	<u>\$2,416,607</u>	<u>\$2,626,607</u>

**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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT.**

**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.

**J. INSURANCE**

The Municipality has insurance coverage for its public facilities, primarily to provide protection for 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.

**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, 2002**

**NOTE 2 - PROPERTY TAXES - CONT.**

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 valor 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, 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:

-	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, 2002**

**NOTE 5 - GENERAL FIXED ASSETS**

General fixed assets 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 an 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 its future.

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

Land and Building	\$ 8,740,339
Machinery, Equipment, Vehicles, and Other	6,163,542
Total Fixed Assets	\$14,903,881

**NOTE 6 - GENERAL LONG-TERM DEBT**

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

Balance at July 1, 2001	\$ 955,000
Additions during the year	1,310,000
Amortization during the year	<u>(128,000)</u>

Balance at June 30, 2002	\$2,137,000
	=====

**BONDS**

Series of 1983 - \$250,000 payable in annual installments of 2,000 to 25,000 until year 2009; with interest at 9.3/4%	\$ 132,000
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Series of 2002 - \$1,310,000 payable in annual installments of \$20,000 to 115,000 until July 1, 2002 with interest at 8 %	\$1,310,000
--	-------------

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 6 – GENERAL LONG TERM-DEBT – CONT.**

**LOANS**

400,000 loan special lottery fund loan payable in quarterly installments of \$10,000 to 40,000 until July 1, 2002 with interest at 8% 345,000

630,000 loan municipal general obligation note payable in semi annually installments of \$85,000 to 125,000 until July 2004 plus interest at 5.3%  
350,000

SUB-TOTAL 2,137,000

Advances from CRIM 1,133,772

\$1,300,000 payable the to pay to United States Department of Agriculture – rural development have 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 1,070,272

Total \$5,092,337

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

June 30	Total
2003	\$ 271,535
2004	301,502
2005	307,974
2006	177,060
2007	178,058
Thereafter	2,671,246
	3,907,375
Less Amount Representing Interest	<u>1,770,375</u>
	<u>\$2,137,000</u>
	=====

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2002**

**NOTE 6 - GENERAL LONG TERM-DEBT - CONT.**

**LOANS**

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 valorem 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 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.

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 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, 2002**

**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, 2002 amounted to \$424,930.

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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**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 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, 2002. 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 2002-6 in the accompanying schedule of findings and questioned costs, the Municipality of Corozal did not comply with requirements regarding cash management 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, 2002.

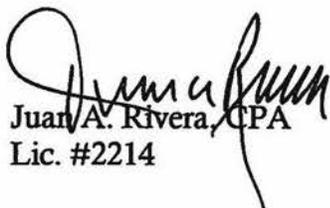
### **Internal Control Over Compliance**

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 2002-6.

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 8, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855564 Puerto Rico State Society of Certified Public Accountants was affixed to the original of this report.

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

**JUAN A. RIVERA, CPA  
CERTIFIED PUBLIC ACCOUNTANT**

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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, 2002, and have issued my report thereon dated November 26, 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 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 an 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.

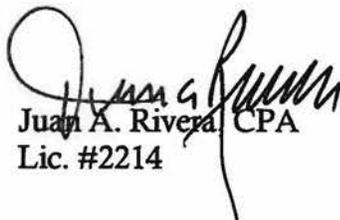
**Internal Control Over Financial Reporting**

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 2002-1 through 2002-6.

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 8, 2002  
Toa Baja, Puerto Rico

NOTE: Stamp No. 1855565 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 COROZAL  
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 Corozal.
2. Six Reportable conditions was disclosed during the audit.
3. No instances of noncompliance material to the financial statements of the Municipality of Corozal were disclosed during the audit.
4. One 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.

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

**B. REPORTABLE CONDITIONS**

**MATERIAL WEAKNESSES**

**1. ACCOUNTING SYSTEM 2002-01**

I noted that the Municipality of Corozal is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchased orders and contracts are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

**Recommendation**

I recommend the Municipality of Corozal that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide the following.

That the Municipality's operations are accounted for through several separate funds and account groups, accounting in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statements by fund category. The Municipality should use the general purpose financial statements based on the following fund and accounts groups:

**a. Governmental Funds**

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

**1) General**

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

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

**B. REPORTABLE CONDITIONS – CONT.**

**MATERIAL WEAKNESSES**

**1 - ACCOUNTING SYSTEM – 2002-1 (CONT.)**

**2) Special Revenue**

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specific purposes.

**3) Debt Service**

Is used to account for the accumulation of resources for, and the payment of, general long term debt, principal, interest and, related costs.

**4) Capital Project**

Is used to account for financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

**b. Proprietary Fund**

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation Accounts are also used in this type of fund.

**c. Trust and Agency Fund**

Is used account for assets held by the Municipality Agency, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

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

**B. REPORTABLE CONDITIONS – CONT.**

**MATERIAL WEAKNESSES**

**1 - ACCOUNTING SYSTEM – 2002-1 (CONT.)**

**d. Account Groups**

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long – term Debt.

**1. General Fixed Assets Account group**

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

**2. General Long – Term Debt account group**

Is used to provide accounting control over General Municipal Long – term Debt; except those accounted in the Proprietary and Trust Funds.

The Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired. This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrance should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and expenses should be recorded when the debt is incurred and the amount is determinable.

**2. FIXED ASSETS 2002 - 2**

During the audit I noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.
- d. There is no supervision process to verify if each department keeps adequate control of the inventory.

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

**2. FIXED ASSETS 2002 - 2**

**Recommendation**

1. To improve the internal controls in the area of property, the Property Custodian in coordination with the Finance Director should implement the following procedures:
  - a. It is recommended to take a physical inventory once a year. Any discrepancies found should be investigated and proper action taken.
  - b. The Department of Property must perform periodical surprise physical observations and / or verification of the related assets to determine their existence and condition.
  - c. The Department of Property must record the expenditures for financing charges of issued long- term debts.
  - d. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.
2. Effective date of the new pronouncement of financial statement presentation (GASB 34) is due for the municipality of Corozal by 2004. Due to the intensive of the work required this regulation is necessary grant with the process of assets valuation and system arrangement during the next fiscal year (2002-2003)

**Auditee Response:**

Physical inventory will be taken next year and updated information to complied with GASB 34.

**3 - ACCOUNTING RECORDS 2002-3**

During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:

- a. I observed that the accounting records and the information provided be the Municipality contains material errors which I conclude there are transactions realized during the fiscal year 2001-2002 and that were not recorded on the accounting books of the Municipality.
- b. Significant adjustments had to be made during the audit.
- c. The Municipality maintains several cash accounts which are either inactive or have limited activity.

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

**B. REPORTABLE CONDITIONS – CONT.**

**3 - ACCOUNTING RECORDS 2002-3**

**Recommendation**

I recommend to the Municipality to maintain a good internal control system in order that all income and expenditure transactions will be record on accounting books correctly.

**Auditee Response:**

The finance director are in the process of reorganized the Department of Finance to established internal control measure to eliminate all of this finding for the year audit

**4 - CONDITION – THE MUNICIPALITY HAS NOT MAINTAIN SEPARATE BANK ACCOUNT FOR THE RESOURCES OF CAPITAL PROJECT BY LEGISLATIVE GRANTS – 2002-4**

**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 in a 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 special account was opened before auditor leave the municipality.

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

**B. REPORTABLE CONDITIONS – CONT.**

**5. PURCHASE AND RECEIVING 2002-5**

**Condition:**

My review of twenty (20) disbursements for Municipal funds and twenty (20) for federal funds revealed noncompliance with applicable requirements. My review of the supporting document revealed that the followings documents were missing or incomplete:

<u>Description</u>	<u>Municipal Funds</u>	<u>Federal Fund</u>
a. Invoice without date	1	2

**Criteia:**

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 policies. The above described conditions are contrary to the following regulations:

- a. Law No. 81 dated August 30, 991
- b. Attachment L of the PROMB circular de 54-84 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.

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

**REPORTABLE CONDITIONS – CONT.**

**5. PURCHASING AND RECEIVING 2002-5**

**Cause of condition:**

The Municipality has not established the necessary procedures to comply with the purchasing and receiving procedures.

**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.

**Audit Response:**

Finance Director established procedures with check list to assure that all disbursement complied with the internal control system.

**C – REPORTABLE CONDITION FEDERAL PROGRAMS**

**SECTION 8**

**EXISTING**

**COSTS/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 its housing in assistance payments after five days eleven of twelve months as required by HUD.

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

**C – REPORTABLE CONDITION FEDERAL PROGRAMS – CONT.**

**SECTION 8**

**EXISTING**

**COSTS/COMMENTS – 2002 -6**

**QUESTIONED**

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 EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2002**

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

Direct Program:

Housing Choice Voucher	14.156	→ N/A	734,582
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**PASSED THROUGH P.R. MUNICIPAL SERVICES  
ADMINISTRATION BLOCK GRANT - NON ENTITLEMENT**

SBGP 95(Consolidation) 254,118	14.228	→	92-FD-20
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***HEALTH AND HUMAN SERVICES***

Title III		93-045	69,495
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**OTHERS FINANCIAL ASSISTANCE**

Federal Emergency Agency	83.520		135,422
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Agriculture Fed.	10.427		<u>34,543</u>
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<b>Total Federal Assistance</b>			<b><u>\$ 1,228,160</u></b>
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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, 2002**

**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	\$1,334,324
Capital Project Fund	<u>480,316</u>
	1,814,640
Less non-federal expenditures	<u>(586,480)</u>
Expenditures in the Schedule of Federal Financial Assistance	<u>\$1,228,160</u>

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2002**

The Municipality of Corozal 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.

<b>Audit report</b>	<b>Findings</b>	<b>Questioned costs</b>	<b>Actual status</b>
Single audit for the year ended June 30, 2001, dated December 17, 2001	<b>2001 - 1. ACCOUNTING SYSTEM</b>  I noted that the Municipality of Corozal is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchased orders and contracts are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.	N/A	Condition Still prevail
	<b>2001 - 2. FIXED ASSETS</b>  During the audit I noted that:	N/A	Condition Still prevail
	a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.		
	b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.		

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2002**

<b>Audit report</b>	<b>Findings</b>	<b>Questioned costs</b>	<b>Actual status</b>
Single audit for the year ended June 30, 2001, dated December 17, 2001	<b>2001 - 2. FIXED ASSETS CONT.</b>		
	<ul style="list-style-type: none"> <li>c. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.</li> <li>d. There is no supervision process to verify if each department keeps adequate control of the inventory.</li> </ul>		
	<b>2001 - 3. ACCOUNTING RECORDS</b>		Condition Still prevail
	<p>During the attempt to audit the Municipality's General Purpose Financial Statements there were several situations hindering the preparation of the General Purpose Financial Statements in accordance with generally accepted accounting principles. These situations were principally due to the following:</p>		
	<ul style="list-style-type: none"> <li>a. I observed that the accounting records and the information provided by the Municipality contains material errors which I conclude there are transactions realized during the fiscal year 2001-2002 and that were not recorded on the accounting books of the Municipality.</li> <li>b. Significant adjustments had to be made during the audit.</li> <li>c. The Municipality maintains several cash accounts which are either inactive or have limited activity.</li> </ul>		

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF COROZAL  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2002**

<b>Audit report</b>	<b>Findings</b>	<b>Questioned costs</b>	<b>Actual status</b>
Single audit for the year ended June 30, 2001, dated December 17, 2001	<b>2001 - 4. THE MUNICIPALITY HAS NOT MAINTAIN SEPARATE BANK ACCOUNT FOR THE RESOURCES OF CAPITAL PROJECT BY LEGISLATIVE GRANTS</b>		Condition Still prevail
	<b>2001 - 5 MAYOR CONSTRUCTION PROJECTS WITHOUT PROPER GOVERNMENTAL AUTHORIZATION</b>		Corrected
	<b>2001-6 BUDGET COMMITMENT SEVERAL DAYS AFTER CONTRACT WAS FORMALIZED</b>		Corrected
	<b>2001 - 7 INTERNAL CONTROL DEFICIENCIES IN THE COLLECTION DEPARTMENT</b>		Corrected
	<b>2001 - 8 LACK OF FORMAL PROCEDURE TO CONTRACT OR PURCHASE THROUGH THE QUOTATIONS METHOD</b>		Corrected
	<b>2001- 9. INCOMPATIBLE FUNCTION IN FINANCE DEPARTMENT</b>		Corrected
	<b>2001- 10. SECTION 8 EXISTING COSTS/COMMENTS</b>		
	1. Condition: The Municipality has not established effective cash management procedures.		Condition Still prevail

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF COROZAL**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**JUNE 30, 2002**

<b>Audit report</b>	<b>Findings</b>	<b>Questioned costs</b>	<b>Actual status</b>
Single audit for the year ended June 30, 2002, dated December 17, 2001	<b>2001-11. SECTION 8</b> <b>GRANT NO:</b> <b>RO46-EO23-001/004</b> <b>COSTS/COMMENTS</b>		Corrected
	1. Condition: My review of the HUD reports of (Forms HUD- 52663, 52681, 52595) revealed that it was submitted at the required date.		



Estado Libre Asociado de Puerto Rico  
 Municipio de Corozal  
 Oficina del Alcalde

Hon. Roberto Hernández Vélez  
 Alcalde

27 de junio de 2003

Lcda. Barbara Sanfiorenzo Zaragoza  
 Comisionada  
 Oficina del Comisionado de Asuntos Municipales  
 P O Box 70167  
 San Juan, Puerto Rico 00936-8167

RECIBIDA  
 UNIDAD DE CUERPO  
 03 JUN 30 PM 3:20  
 04/03/2003

**Informe Plan de Acción Correctiva**  
**"Auditoría Sencilla"** al 30 de junio de 2002

Estimada Lcda. Sanfiorenzo Zaragoza:

Cumpliendo con las disposiciones de la Sección 315 (3) (iii)© "Corrective Action Plan" de la Carta Circular OMB-A-133 emitida por la Oficina de Gerencia y Presupuesto del Gobierno de E.U., le estamos sometiendo el Plan de Acción Correctiva correspondiente al Single Audit que finalizó el 30 de Junio de 2002.

Las situaciones que fueron señaladas en el **Finding No. 2002-01** y el **Finding No. 2002-02** son situaciones que tienen que ver con la contabilidad del Sistema Mecanizado. Por lo que solicito su intervención para corregir la misma, ya que es un problema que afecta a muchos municipios.

En cuanto a los Finding 2002-3 al 2002-6 se hicieron los arreglos necesarios para corregir los mismos.

Cordialmente;

Roberto Hernández Vélez  
 Alcalde

03 JUN 30 PM 4:01  
 DIVISION REGULACIONES  
 E INTERVENCION

No. 9 Calle Cervantes, Corozal, P.R. 00783 - 1905 / Tel. 859 - 3060 / 859 - 2268  
 E-MAIL: corozal@coqui.net

C:\MW\InfEsp\PA Single Audit 2002

Corozal brilla en sus 200 años. ¡Te invitamos a brillar con nosotros!



**INFORME PLAN DE ACCION CORRECTIVA**  
*Single Audit 2001-2002*

Departamento: *Administración - Finanzas*

Programa: *Contabilidad*

Funcionario principal: *Roberto Hernández Vélez*

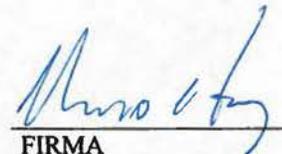
Período auditado: *1 de julio de 2001 al 30 de junio de 2002*

Indique: [  ] PAC [  ] ICP

Fecha : *30 de junio de 2003*

RECOMENDACION	ACCION CORRECTIVA	RESULTADO
<p><b><u>Reportable Conditions</u></b></p> <p><b><u>2002-1 Accounting System</u></b> El Municipio de Corozal, el Centro de Recaudación de Ingresos Municipales y el Comisionado de Asuntos Municipales deberán implementar un Sistema de Contabilidad que provea separación por fondos, categorías y grupos de cuentas. Recomendación (Pag. 25)</p>	<p>El Sistema de Contabilidad es el suministrado por la OCAM. Este Sistema es uniforme para todos los Municipios. El conseguir un sistema alterno, tiene que ser autorizado por la OCAM. En estos momentos OCAM está evaluando propuestas para cambiar este Sistema.</p>	<p>Parcialmente Cumplimentado</p>

CERTIFICO QUE ESTA INFORMACION ES CORRECTA

  
FIRMA

*30/junio/03*  
FECHA



**INFORME PLAN DE ACCION CORRECTIVA**  
*Single Audit 2001-2002*

Departamento: *Programas Federales*

Programa: *Programa Sección 8*

Funcionario principal: *Roberto Hernández Vélez*

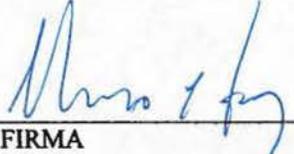
Período auditado: *1 de julio de 2001 al 30 de junio de 2002*

Indique:  PAC       ICP

Fecha : *23 de junio de 2003*

RECOMENDACION	ACCION CORRECTIVA	RESULTADO
<p><b><u>Reportable Condition Federal Program</u></b></p> <p><b><u>Conditions 2002-6</u></b> <b>Recommendation</b> : Coordination between finance department and federal section will be establish to disburse the payments in to the requirements time.</p>	<p>Esta Situación fue corregida mediante un formulario creado para registrar la fecha en que llegan los depósitos al banco mediante transferencia electrónica. Se coordina con finanzas para los recibos y el registro del ingreso en los libros. Luego se procede con los pagos correspondientes.</p>	<p>Cumplimentado</p>

CERTIFICO QUE ESTA INFORMACION ES CORRECTA

  
FIRMA

*30/junio/03*  
FECHA