

AUDIT MANUAL AS PUBLISHED IN THE OFFICIAL JOURNAL LA GACETA

PROCOMER'S AUDIT MANUAL FOR FREE ZONE COMPANIES

The following resolution was made by PROCOMER's Board in ordinary session # 194-2007 and ratified in session # 195-2007 on July 2, 2007.

Whereas,

- I.—The Free Zone System is a key tool of local policy to attract investment.
- II.—In addition to generating investment, Free Zone companies are a valuable source of quality employment to the country's population.
- III.—As a part of the incentives provided by the government to Free Zone companies the Costa Rican Ministry of Finance, the General Customs Bureau (Dirección General de Aduanas,) and the Promotora del Comercio Exterior de Costa Rica must exert some control.
- IV.—PROCOMER' Management has deemed highly important to clearly determine the areas where it is truly authorized to advise and monitor in order to provide proper control.
- V.—Pursuant Article 12 of the Free Zone System Act # 7210 as amended, tax control of the System is the responsibility of the Ministry of Finance.

Article 12.—Monitoring and control of the Free Zone tax system is the responsibility of the Ministry of Finance, in line to this Law, its Bylaws, and other pieces of tax legislation.

VI.—Customs control of the Free Zone System is the responsibility of the National Customs System through the General Customs Bureau and other jurisdictional customs houses, depending on Free Zone company location.

VII.—Among the Articles empowering the customs authority to engage in customs control of Free Zone company operations, Articles 23, 24, 30, 49, 50, and 176 of the General Customs Act (of the General Customs Act, # 7557) are outstanding. As a result of numbers, it is convenient to quote Article 23, Article 24, subsections a) and f), and Article 176 of said law:

Article 23.—**Control types.** Customs control can be immediate, ex post facto, or permanent.

Immediate control will be exerted on merchandise since arrival into the customs domain or since the time they are appointed for transference and until authorization to remove them is given.

Ex post facto control will be exerted in relation to customs operations, acts resulting from them, customs declarations, identification of customs taxes, payment of taxes, and performance of assistants to the customs public function as well as of natural and artificial personas participating in foreign trade operations, within the term mentioned in Article 62 of this Law.

Permanent control will be exerted any time on assistants to the customs public function in relation to their meeting operation requirements and duties. It will also be exerted on merchandise that once removed are still under a temporary customs system while in the juridical customs relation to check compliance with stay, use, and destination requirements.

Article 24.—**Customs powers.** The customs authority, without prejudice to its tax management powers established in tax legislation, will be empowered to:

- a) Demanding and ensuring compliance with customs tax elements including nature, characteristics, tariff classification, origin, and customs value of merchandise and all other duties, requirements, and obligations resulting from the import, stay, and export of merchandise, vehicles, and means of transportation of the national customs domain.
(...)
- f) Monitor deposits under customs control, demand submission of merchandise on deposit and its records, check inventories and carry out any other check it deems necessary.

Article 176.—**Customs control.** Among other control responsibilities, the customs authority will exert control over:

- a) Permanent or temporary monitoring of fences and access roads.
- b) Use and destination of merchandise to ensure they are used as intended under the System.
- c) Checking Free Zone companies.

The Free Zone managing agency must provide the customs authority with all relevant information about operations carried out by companies using the means established by the General Customs Bureau, without prejudice to customs authority ask directly for records on production costs and processes, permanent inventories, and accounting records and their annexes for Free Zone companies, in line with appropriate regulations.

VIII.— Article 3 of the Law to Protect Citizens Against Excessive Administrative Requirements and Procedures

(Ley de Protección al Ciudadano del Exceso de Requisitos and Trámites Administrativos # 8220,) states that the Management Office will not be entitled to questioning or reviewing firm authorizations or permits issued by other agencies, except in relation to the nullification system. On the other hand, the Management Office will only be entitled to request from the company a certified copy of the final resolution for a given procedure. However, it will not be entitled to ask for information or requirements still to be known or decided on by another administrative agency. In the best case, the company must submit a certification proving the procedure is currently taking place.

IX.—The Free Zone System Act establishes a number of operational requirements that PROCOMER must control only when its participation is explicitly anticipated, pursuant Article 87 of Free Zone System Bylaws, quoted below:

Article 87.—PROCOMER is responsible for receiving, evaluating, and dealing with applications from those interested in joining the Free Zone System, as well as for controlling investment amounts and all other standards included in the Admission Agreement.

It is also responsible for receiving and evaluating annual reports to be submitted by Free Zone companies and participate in procedures expressly identified as its responsibility in these Bylaws.

The Foreign Trade Ministry is responsible for starting and completing relevant punishment procedures based on technical reports and recommendations made by PROCOMER and all relevant units of the Ministry of Finance.

Everything related to monitoring and control of customs operations tax exemptions is the responsibility of the appropriate units of the Costa Rican Ministry of Finance and of PROCOMER, as appropriate. In this latter case, PROCOMER's intervention on these fields is described on Law 7210 as amended or by these Bylaws.

In case PROCOMER finds potential tax abnormalities, it will report at once to the Ministry of Finance for it to take appropriate legal action. Likewise, all relevant units of the Ministry of Finance must report to PROCOMER any abnormality they may find which can result in starting a punishment procedure pursuant Article 32 of Law # 7210 as amended. Based on that information and on its own research if appropriate, PROCOMER must recommend the Foreign Trade Ministry to start the appropriate punishment procedure as soon as possible as per Article 32 mentioned above.

X.—Once all operational issues PROCOMER must control have been thoroughly reviewed, the Management Office submitted to the Administrative Affairs Commission the Free Zone Company Audit Manual as a tool to provide juridical security and to anticipate all issues to be required by PROCOMER officers for control and advice purposes in relation to the Free Zone System.

XI.— PROCOMER's Administrative Affairs Commission resolved in session # 077-2007 of June 14, 2007:

“Agreement: We hereby agree to submit to and request approval from PROCOMER's Board for the Free Zone Company Audit Manual Project by recommendation of this Administrative Affairs Commission. **Final resolution**”.

XII.—Upon review of the Free Zone Company Audit Manual Project sent by the Management Office through note # GG-286-07 of June 14, 2007, this Board feels it must be approved.

Therefore, PROCOMER's Board subscribes the following:

Be it resolved that: We hereby approve the Free Zone Company Audit Manual submitted by the Management Office through note # GG-286-07 of June 14, 2007, as follows:

FREE ZONE COMPANY AUDIT MANUAL

Promotora del Comercio Exterior de Costa Rica, aware of the importance for Free Zone companies of clear rules regarding PROCOMER's audit functions has engaged in clearly setting the objective, legal foundation, and the procedure to ensure compliance with legal issues it must monitor.

This manual is applicable to all Free Zone System companies. Some Articles, however, are to be applied in line with categorization given to the company, as specified in the statement regarding the appropriate Article.

CHAPTER I

General Issues

Article 1—**PROCOMER's competence to conduct audits.** Article 19 of the Free Zone System Act, # 7210 as amended and Article 87 of Free Zone System Bylaws, Executive Decree # 29606-H-COMEX, lead to conclude that it is PROCOMER's responsibility to control investment amounts and all other related issues included in the Admission Agreement. On that basis, the main purpose of this Audit Manual is to clearly set the objective of visits paid by PROCOMER's officers to check on operational issues of Free Zone companies, in line PROCOMER's competence explicitly stated in the Free Zone System Act and its Bylaws.

The Ministry of Finance will be responsible for monitoring and controlling the Free Zone tax system, pursuant to Article 12 of the Free Zone System Act, as well as Article 24 of the General Customs Act. PROCOMER will only be involved as explicitly stated in the Free Zone System Act or Bylaws. In spite of the above, if PROCOMER officers discover irregularities while performing their tasks as detailed here, they will report the fact to the appropriate authorities.

Article 2—**Audit Manual: purpose and structure.** This Manual is intended for Free Zone companies to clearly know the PROCOMER's audit process, as well as items to be audited and information requested by and assessed by PROCOMER's officers.

Each item matches an objective and a legal foundation as well as a description of the activity auditors will conduct to ensure attainment of that objective. When additional explanation is required, the Manual will mention the major items applicable.

Finally, a specific chapter for industrial park managing companies will be included.

Article 3—**Audit items and period.** In conducting check as ordained in the Free Zone System Act and its Bylaws, PROCOMER will review the following:

1. Company activity.
2. Plant location.
3. Estimation of charge.
4. Investment level and compliance dates.
5. Employment level and compliance dates.
6. Operations startup date.
7. Percentage production (satellite plants.)
8. Existence of operations book.
9. Specific issues applicable, according to company classification.
10. Any other issue PROCOMER must audit in line with current regulations.

Checking audits will only comprise those terms not previously audited without prejudice to the auditors confirming through follow-up audits that recommendations made in a follow-up audit have been implemented. In case this is the first time the company undergoes an audit, it is understood that the audit period will cover since the operations startup date to the date the first checking audit is conducted.

Article 4—**Control of all other Free Zone companies' operational duties.** All items not subject to audit and being explicitly assigned to PROCOMER's competence in a legal standard or bylaw will be checked by the Operations Management through the Annual Operations Report, as well as through all other devices designed by the Operations Management for this purpose.

CHAPTER II

Pre-Audit Procedure

Article 5—**Identification of companies to be audited.** Every two months, the Supervision and Control Unit of PROCOMER's Operations Management will set the timeline for audits, as well as the dates they will be conducted. Every Free Zone company must be audited at least once every two years.

At least one month prior to the audit, the Supervision and Control Unit will give notice to the company through PROCOMER's Operations Manager of the date auditors will be coming and will send it a list of the issues to be audited.

Companies unable to receive the auditors in the appointed date must let the Operations Manager know within five business days from the date notice is received at the address given by the company. The company must explain why it cannot receive the auditors on that date and it must propose a new date. PROCOMER will review that proposal and will authorize the audit date. By way of exception and just in fully justified applications outside that time will be accepted.

Article 6—**Information collection.** Prior to starting the audit, the auditors must collect all the information required to learn about minimum requirements to be met by companies, namely, activity they engage in, company categorization, Executive Agreement numbers and date as well as publication date, operations startup date, employment level, new initial investment level, and total minimum investment level, and their dates of compliance, area of industrial ceiling, charge amount, and all other data of interest in the company file.

To collect this information, the auditors will review the last annual report approved, the application for admission to the Free Zone System, the Executive Admission Agreement as amended and any other relevant information found in PROCOMER's files.

CHAPTER III

Specific issues to be checked

Article 7—**Operations startup and company activity**

A. OBJECTIVE

In the first audit conducted for a Free Zone company, the auditors will make sure that the company has begun operations in the date indicated in the Admission Agreement. Once this is checked, it will no longer be investigated on subsequent audits.

Also, the auditors will make sure that the company is engaged in the activity it stated when joining the System, as qualified according to the Admission Agreement as amended. This requirement will be checked both in the first and all other audits undergone by the company.

In the case of companies with supplementary marketing activities authorized, the auditors will make sure this activity is conducted as authorized by PROCOMER.

B. LEGAL FOUNDATION

Articles 17, 20, 32, subsection b) of the Free Zone System Act as amended. Articles 9, subsection c), 10, subsection a), 38 and 43 of Free Zone System Bylaws.

C. PROCEDURE

1. On the day the audit starts, the auditors will ask the company for a written description of its production process.
1. The auditors will tour company facilities to ensure that production is being conducted as authorized in the Admission Agreement.
2. In case this is the first time the company, the auditors will make sure that the company has started operations on the date set in the Admission Agreement to start production operations. To do so, they will ensure that the production process described in the application for admission to the Free Zone System is being conducted either partially or totally.
3. In case the company engages in a supplementary marketing activity, the auditors will make sure this has been previously authorized by PROCOMER and it is being conducted under the terms it authorized, as per the Free Zone System Bylaws.

CHAPTER IV Company Location

Article 8—**Company location**

A. OBJECTIVE

Making sure that the company is located at the same place it was authorized to operate through the Admission Agreement as amended.

B. LEGAL FOUNDATION

Article 25 of the Free Zone System Act as amended. Articles 9, subsection d), 20, 22 and 23 of Free Zone System Bylaws.

C. PROCEDURE

On the day the audit starts, the auditors will make sure that operations are being conducted at the sites stated in the Admission Agreement as amended. These sites must have been previously allocated by the appropriate customs authority. To check this, the auditors will request a copy of the resolution granting the company the status of assistant to the customs public function.

CHAPTER V Investment level

Article 9—**Investment level**

A. OBJECTIVE

Making sure that the company is meeting the minimum level of new initial investment and the total investment level required as well as the date it promised to reach those investment levels, in line with the Admission Agreement as amended, when appropriate.

B. LEGAL FOUNDATION

Articles 1, 19, subsections d) and g), 20, subsection l), 20 two and 32, subsection c) of the Free Zone System Act as amended. Articles 4, 5, 6, 34, subsections i) and j) and 42 of Free Zone System Bylaws.

An explanation of requirements for Free Zone investment follows.

1. NEW INITIAL INVESTMENT

In line with Article 1 of the Free Zone System Act, Free Zone companies joining the System after October 8, 1998 when Law # 7830 (Ley de Reformas a la Ley de Zonas Francas) was published are under the obligation to invest at least one-hundred fifty thousand U.S. dollars (US \$150,000), or its equivalent in Costa Rican colones (CRC) on new fixed assets. Processing companies located outside the industrial park must invest at least two million U.S. dollars (US \$2,000,000).

New investments are those related to fixed assets under the following terms:

- a) Assets are owned by the applicant for admission to the Free Zone System and are acquired by the applicant starting on the date of application for admission to the Free Zone System .
- b) In the case of chattel, assets must be imported, either new or pre-owned, or new assets purchased locally.

2. TOTAL INVESTMENT

The obligation to meet the minimum amount of new initial investment on fixed assets is independent of that to

meet the total investment amount agreed to by the Free Zone company as stated in the Admission Agreement. However, the minimum amount of new initial investment will be considered as a part of the total investment amount the company agreed to make.

Assets acquired prior to the date the company submitted the application for admission in the Free Zone System as well as pre-owned assets acquired in the country will be considered as a part of the minimum amount of total investment rather than new initial investment the company agreed to make.

3. FIXED ASSETS

Fixed assets are real estate and chattel subject to depreciation used in business operation whose acquisition date and price are duly recorded in books by the company applying for admission in the Free Zone System. In order to establish the amount of new initial investment, fixed assets will be taken at their historical value (cost of acquisition), without prejudice to applying tax procedure standards and regulations for accounting purposes.

In the case of audited companies joining the Free Zone System prior to October 8, 1998, the auditors will check specific conditions (if any) regarding minimum investment level and estimation methods as established in the Admission Agreement for each individual company and in their operations contract.

C. PROCEDURE

1. The auditors will check the total and minimum investment levels established in the Admission Agreement of the company as amended.
2. The auditors will check the date notice of the Admission Agreement as amended was given to set the exchange rate applicable to the company.
3. The auditors will prepare the Cumulative Investment Level note considering data since the date the application for admission was submitted and the last partial closing available and they will compare those data against the company's financial statements and those submitted in the Annual Operations Report. When previous audits have been conducted, investment data will be taken from the last audit conducted and the last partial closing available and the procedure will be conducted as stated.
4. The company must show the auditors the legal accounting records. Arrears in those records must not exceed three months. Auditors must check that financial statements provided by the company match the information in the records.
5. The auditors will make sure that the company has met the investment levels at the date it agreed to do so.
6. The auditors will prepare the Minimum Investment Level note, itemizing excess or insufficiency of investment levels, based on the level established in the latest Executive Agreement. Estimation will be based on the following standards:

6.1 Companies whose investment level has not been revised through executive agreement:

Total amount in U.S. dollars agreed to by the company in the Executive Admission Agreement will be turned into Costa Rica colones, at the exchange rate (purchase) of the date notice of said Agreement was given.

6.2 Companies with increased minimum investment levels approved through executive agreement:

- a) The total amount in U.S. dollars agreed to by the company in the Admission Agreement will be turned into Costa Rica colones, at the exchange rate (purchase) of the date notice of said Agreement was given.
- b) The excess amount in U.S. dollars approved through revision of the Admission Agreement will be turned into Costa Rica colones, at the exchange rate of the date notice of said Revision Agreement was given.
- c) Data in Costa Rica colones resulting from these two procedures will be added up. The sum will be the real amount agreed to by the company which it must meet.

6.3 Companies with reduced minimum investment levels approved:

The new amount in U.S. dollars agreed to by the company will be turned into Costa Rica colones, at the exchange rate (purchase) of the date notice of the Initial Admission Agreement was given.

6.4 Companies receiving the benefits stated in Article 20 two of the Free Zone System Act:

- a) These are companies readmitted to the Free Zone System based on Article 20 two of the Free Zone System Act.
- b) The total amount agreed to and met by the company will be turned into Costa Rica colones, at the exchange rate the company indicates in the Application for Admission to the Free Zone System, Form GO-F-01.09 of the application.
- c) To control additional investment made to join the Free Zone System through Article 20 two, the exchange rate of the date notice of the Admission Agreement was given will be taken from 20 two

6.5 Companies receiving the fixed-asset reinvestment benefits stated according to Article 20 subsection "I" of the Free Zone System Act:

- a) The auditors will check requirements set in Article 42 of Free Zone System Bylaws.
 - b) These companies must have made an original initial investment of two million dollars \$2,000,000 under the terms set by Article 42 of Free Zone System Bylaws.
 - c) The auditors will conduct random tests to check for existence and value of fixed assets accounting for the original initial investment amount indicated at the time the application for reinvestment was submitted.
 - d) The auditors make sure that the company meets the amount of investment it agreed to through the Executive Agreement and that this re-investment has been made after year four and prior to starting year eight of operation in the System.
- 6.6 Companies joining the System prior to 1998, with work capital (outstanding assets minus outstanding liability) authorized in the Admission Agreement to estimate investment level:
- 6.6.1. If items influence the estimation of investment levels, the auditors will ask the company for bank reconciliations for all current accounts and will:
 - a) Compare reconciliation balance with the balance shown in accounting records.
 - b) Compare balance according to banks with that shown in the bank's statement of account.
 - c) Review bank reconciliation for old / unusual reconciliation entries.
 - 6.6.2. In the case of Outstanding Accounts Payable and Accounts Receivable, if they are key to meet investment levels, the auditors will ask for supplementary details together with balance age analysis and will compare these balances with that shown in the accounting records. They will analyze the composition of these ledgers and will add them up.
 - a) The auditors will corroborate the itemization and reasonableness of all accounts with significant amounts used to ascertain working capital.
 - b) If a significant long-term liability exists, they will make sure they are properly classified within this item.
 - c) If the company meets very closely the investment level, the auditors will expand the test.

CHAPTER VI

Employment level and compliance dates

Article 10.—Employment level and compliance dates

A. OBJECTIVE

Checking compliance with Employment Levels, as per commitment made in the Admission Agreement as amended and that data submitted in the last Annual Operations Report match data reported to Caja Costarricense de Seguro Social (CCSS.) Also, ensuring compliance with dates the company undertook to meet the employment level.

B. LEGAL FOUNDATION

Article 19, subsections d) and g) of the Free Zone System Act as amended.

Article 34, subsections c), i) and j) of Free Zone System Bylaws as amended.

Article 74 of Ley Constitutiva de la Caja Costarricense de Seguro Social.

C. PROCEDURE

1. The auditors will request the payrolls reported to CCSS for the last fiscal year and for the following months until the audit date, in order to:
 - a) Obtain an annual simple average of the employment level for the last fiscal year and compare it to the commitment made.
 - b) Obtain a partial simple average for the months following the last fiscal year and the appropriate note to compare it with the commitment made.
 - c) If the obligation has changed over the fiscal year due to revision of the Executive Agreement, the simple average will be estimated individually for each period when the minimum employment level should have been met.
2. When appropriate, the auditors will check for compliance dates for employment levels.
3. The auditors will check the employment level table for the last Annual Operations Report, by ensuring that the number of employees shown in the report matches the number of employees reported in CCSS payrolls. In case of difference, the auditors will request justification or will tell the company to ask the Operations Management to rectify the Annual Operations Report.

For companies with average employment levels is below fifteen individual as compared to the number agreed to by the firm in the Admission Agreement, the auditors will proceed as follows: they will select a 25-employee sample out of the last payroll reported to CCSS, and they will make sure these actually work for the company and will ask them for their ID cards. Should they not be present, auditors will check personnel files.

4. For employment level purposes, employees are full-time workers. Employees working for less than that time will be accounted for in line with the percentage of full time they work. For instance, a part-time employee will be counted as 0.50 jobs,; one working for a quarter of time will be deemed 0.25.
5. Auditors will write an account indicating test results.

CHAPTER VII

Inventories

Article 11.—**Inventories.**

A. OBJECTIVE

Making sure that the company uses a permanent inventory control and record system in line with generally accepted accounting standards.

B. LEGAL FOUNDATION

Article 19, subsections a) and b) of the Free Zone System Act as amended.

Article 34, subsections a), b), c), d) and j) of Free Zone System Bylaws as amended.

C. PROCEDURE

The auditors will make sure that the company uses a permanent inventory record system.

CHAPTER VIII

Fixed Assets

Article 12.—**Fixed Assets**

A. OBJECTIVE

Evaluating control devices set by the company to protect and control assets seen as supporting investment level.

B. LEGAL FOUNDATION

Article 19, subsections a), b) and f) of the Free Zone System Act as amended.

Article 7, 33 two, 34, subsections b), c) and j) of Free Zone System Bylaws.

C. PROCEDURE

1. The auditors will ask for the company's fixed asset ledger (for both own assets and those in consignment) for the last partial closing available and will make sure they match with their general ledger accounts. They will document this through a predesigned note developed for this purpose.
In case the company has a special policy regarding capitalization amounts, the auditors will make sure that policy is approved by the General Tax Bureau (Dirección General de Tributación.)
2. Also, they will ensure that the fixed asset ledger contains the following information,
 - a) Asset description.
 - b) Model, brand name, and series number.
 - c) ID plate number.
 - d) Location.
 - e) Acquisition cost, cumulative depreciation and book value.
 - f) Purchase date.
 - g) Declaration number used to bring it into the System or local purchase invoice.
3. A sample of at least 25 fixed assets will be selected among those taken into consideration to estimate investment level and that must meet the requirements set in Chapter V "Investment Level." Seventy-five per cent of this sample must be taken from the ledger and 25 % of assets on company premises. If the company hardly meets investment level, then the auditors can expand sample size. In this latter case, the auditors must indicate this action in their audit report as well as the criteria employed to enlarge this sample.
4. In relation to selected assets, the auditors:
 - a) Will physically locate the sample, will make sure assets in the sample are duly identified through plates, and will check to see that their numbers match that recorded in the ledger.
 - b) Will ask for the customs declaration used in bringing the assets into the System and will ensure that the cost in either the declaration or the invoice (local purchase) and / or other attendant expenses recorded match those in the ledger.
 - c) Will make sure that the asset is being used exclusively to benefit the company; that it is related to the activity authorized in the Executive Agreement, and that it is located in the Free Zone area.
 - d) Obsolete / damaged assets can not be considered as a part of investment and the company must record them in a separate general ledger account and control them on separate ledgers.

5. Will develop a summary fixed asset note, itemizing movements from the last closing reviewed to the last partial closing available. The auditors must conduct intermediate analyses, in line with dates set to comply with investment commitments, as well as partial analyses is the fiscal years is in the middle of the review term. This analysis must include checking data obtained against the Annual Operations Report.
6. In case movements exist, then the auditors,
 - 6.1 Will check physically the existence of the asset (in the case of purchased assets) and they will check their cost against that in the invoice and the appropriate customs declaration.
 - 6.2 In the case of withdrawals, the will check the following:
 - a) **Assets:** That assets have been withdrawn through a donation record, destruction record, exports customs declaration or by paying in full all appropriate nationalization taxes. For damaged assets still on company premises, the auditors will make sure these have been included in memorandum accounts so that they are no longer accounted for as a part of investment.
 - b) **Sales:** The following procedures must be followed,
 - i. For sales of imported machinery and equipment purchased five or more years ago, the auditors must make sure that nationalization procedures have been followed. This benefit applies only to machinery and equipment imported through franchise over five years ago, pursuant to Article 20, subsection b) of the Free Zone System Act.
 - ii. For imported assets purchased less than five years ago, the auditors must make sure that nationalization procedures have been followed and also that appropriate taxes have been paid.
 - iii. For locally-purchased assets, that appropriate nationalization taxes have been paid. Locally-purchased assets are not tax-exempt five years after purchase.
 - iv. That assets have been sold to other Free-Zone companies meeting the requirements set to develop a Free Zone Customs Declaration for Special System Sales.
 - c) **Loss or theft:** That loss or theft have been reported to Organismo de Investigación Judicial and the appropriate customs. The company must have proper documents to prove this.
 - 6.3 Other movements:
 - a) Outsourced assets: That PROCOMER has allowed this transaction and that the appropriate customs declaration has been written pursuant to the Free Zone System Act and its Bylaws.
 - b) Temporary imports (entrance into Costa Rican territory): That the free zone customs declaration has been used and that the customs security has been provided, pursuant to Free Zone System Act its Bylaws.
7. In line with legal authority conferred on a PROCOMER, auditors will check use of vehicles exempted under the Free Zone System .
8. The auditors will develop a summary of results obtained. No customs requirement must be met when companies have paid all taxes, and thus they can freely dispose of assets.

CHAPTER IX

Operations Control Book

Article 13.—**Operations Control Book**

A. OBJECTIVE

Making sure that the company has a complete Operations Control Book.

B. LEGAL FOUNDATION

Articles 19, subsections a), b), e) and g) of the Free Zone System Act as amended.

Articles 34, subsections a), b), c), j) and k), of Free Zone System Bylaws as amended.

C. PROCEDURE

The auditors will check the Operations Control Book and will ensure it:

- a) Does not have blanks.
- b) Does not have blotches or erasures.
- c) That pages are numbered in sequence.
- d) That records are made in chronological order by date, policy number, customs house where procedures take place, or any other means proving the existence of records.
- e) That the updated format is being used.
- f) That record delays do not exceed one month.

CHAPTER X

Local purchases

Article 14.—**Local purchases**

A. OBJECTIVE

Making sure that local purchase reports to PROCOMER have been within the appropriate terms.

B. LEGAL FOUNDATION

Articles 19, subsections a), b), d) and g), 20 subsection e) and Article 23 of the Free Zone System Act as amended.
Article 49 and 50 of Free Zone System Bylaws as amended.

C. PROCEDURE

The auditors will make sure that the local purchase report and the public and private service purchase report has been submitted to PROCOMER in the first ten business days of each month.

In case omission or error are discovered in the local purchase record, the company can rectify it when submitting the next local purchase monthly report.

CHAPTER XI

Charge for participating in the System

Article 15.— **Charge for participating in the System**

A. OBJECTIVE

Making sure that the company is properly paying the Free Zone participation duty.

B. LEGAL FOUNDATION

Article 9, subsection b) section ii) of Law # 7638 enacted October 30, 1996 (Ley de Creación del Ministerio de Comercio Exterior and la Promotora del Comercio Exterior de Costa Rica), Executive Decree # 25612-COMEX issued November 8, 2006, Mandatory Contributions, and Article 34, subsection g) of Free Zone System Bylaws.

C. PROCEDURE

The auditors will make sure that the company the charge it must pay, according to company type.

I. **Processing companies**

The auditors will make sure that the company is paying the amount it must, in line with the number of square meters of industrial ceiling reported to PROCOMER or measured by PROCOMER.

Supplementary activity: For companies with supplementary marketing activities approved, auditors will check their right to participate in the System, based on sales as follows:

1. They will ask PROCOMER's Financial Unit for an itemization of the charge amount and sales reported by the company for the previous fiscal year and from the end of the fiscal year to the latest partial closing available.
2. They will collate the sales amount reported to PROCOMER with the firm's accounting records.

II. **Managing, trading, service, and other companies as categorized in Article 17 of the Free Zone System Act**

The procedure below will be followed with these types of companies:

The auditors will make sure the company is paying the amount they must pay, in line with monthly sales volume. To do so, it will collate the balance of sales reported to PROCOMER with the firm's accounting records. Also, auditors will ensure that those data match those in the last Annual Operations Report submitted.

CHAPTER XII

Satellite Plant

Article 16.— **Satellite plants.** This chapter applies to companies with one or several satellite plants authorized.

A. OBJECTIVE

Making sure that the company has the permits required to operate a satellite plant and that production in that plant does not exceed 45 % of total production of the Free Zone company.

B. LEGAL FOUNDATION

Articles 18, subsection ch) and 19, subsections b) and f) of the Free Zone System Act as amended.
Articles 26, 34, subsections b), c) and j) of Free Zone System Bylaws as amended.

C. PROCEDURE

1. The auditors will make sure that the company has the permits required to operate satellite plants.

2. Through review of output reports for the last fiscal year, they will ensure that at least 55 % of total production has taken place in the main plant.
3. They will ensure that satellite plants have been authorized by the General Customs Bureau.

CHAPTER XIII

Companies Outside the Park

Article 17.—Companies outside the park

A. OBJECTIVE

In addition to all of the above, ensuring that the firm has the control mechanisms required to safeguard all merchandise.

B. LEGAL FOUNDATION

Articles 18, subsection ch) and 19, subsections b), f) and g) of the Free Zone System Act as amended.

Articles 25, 25 two, 25 three, 34, subsections a), b), c), g), j) and k), 67 and 69 of Free Zone System Bylaws as amended.

C. PROCEDURE

The auditors will make sure that the company is an assistant to the customs public function. In spite of this, auditors must record in the final audit report any irregularity discovered in relation to company installation..

CHAPTER XIV

Additional Warehouses

Article 18.—Additional warehouses. This chapter applies to companies with one or several authorized warehouses to store merchandise and raw materials.

A. OBJECTIVE

Making sure that companies with additional warehouses have effective authorization from PROCOMER and of the General Customs Bureau, and that both authorizations meet all proper legal requirements.

B. LEGAL FOUNDATION

Article 28, 34, subsections a), b), c) and j) of Free Zone System Bylaws as amended.

C. PROCEDURE

1. The auditors will make sure that authorization issued by PROCOMER and the General Customs Bureau for use of the warehouse is still effective.
2. Will make sure that the warehouse is located in a free zone or industrial park.
3. Will ensure that company goods are properly protected.
4. In case the additional warehouse is located at a different industrial park, he / she will make sure that free zone customs declaration forms are used to transfer goods to and from the warehouse.

CHAPTER XV

Expansions of industrial ceiling

Article 19.—Expansions of industrial ceiling

A. OBJECTIVE

Make sure that expansions of industrial ceiling have been carried out in line with requirements in the Free Zone Bylaws.

B. LEGAL FOUNDATION

Articles 25 two and 25 three, Article 34, subsections a), b), c) and j) of Free Zone Bylaws.

C. PROCEDURE

The auditors will follow the appropriate procedure in line with company categorization.

1. **Companies inside industrial parks:** If ceiling expansion took place inside the park where the Free Zone company is located, then the auditors will make sure that PROCOMER granted the firm's operation permit. Also, they will make sure that the expansion was authorized by PROCOMER. In addition, they will make sure the appropriate charge for the area has been paid. If ceiling expansion took place in another industrial park, then the auditors must make sure that:
 - a) The company has made an additional investment in the expanded area under the terms and conditions set in

- the appropriate executive agreement.
 - b) The expanded area is devoted to receive, store, check, produce, and ship merchandise only for the activity previously authorized by PROCOMER.
 - c) The company maintains a permanent inventory system in the expanded area, separate from inventories carried in the area initially authorized.
 - d) No raw materials, equipment, machinery, or merchandise are relocated or transferred from the Free Zone company to the expanded area and vice versa. Each expanded area must be exclusively used for the purposes it was authorized, except in case of exception as authorized by the Free Zone company and approved by the jurisdiction customs house through justified resolution.
 - e) They must make sure that the charge appropriate for this area has been paid.
2. **Expansion of Free Zone companies outside industrial parks:** In the case of companies outside the park applying for expansion, auditors must make sure that:
- a) The company has been authorized by PROCOMER through permit.
 - b) That the expanded area is devoted to receiving, storing, checking, producing, and shipping merchandise or to any other company activity the company as identified and restricted.
 - c) No raw materials, equipment, machinery, or merchandise are relocated or transferred from the Free Zone company to the expanded area and vice versa. Each expanded area must be exclusively used for the purposes it was authorized, except as previously approved by the customs house, with justification given.
 - d) They must make sure that the charge appropriate for this area has been paid.

CHAPTER XVI

Free Zone Managing Companies

Article 20.—**Duties of industrial park managing companies.**

A. OBJECTIVES

1. Ensuring that Free Zone managing companies build all required children centers within the industrial park to serve worker's children between zero and five years old. Park managers will lease this service to companies in the park. Also, they will strive to build recreation areas in each park for workers to enjoy.
2. Making sure that managing companies have reported movements of companies in the industrial park to the Operations Management.
3. Park-managing companies will devote a room for workers to meet and hold assemblies and will keep it in good shape. Park worker representatives will be allowed into the park to attend those assemblies.
4. Making sure that el industrial park has the minimum infrastructure required by the Free Zone Act and its Bylaws.

B. LEGAL FOUNDATION

Article 4, subsection i), 19, subsections a), b), f), g) and 37 of the Free Zone System Act as amended.

Articles 28 and 34, subsections a), b), c), g), j), k), 35 of Free Zone System Bylaws.

C. PROCEDURE

1. In relation to company installation, auditors will make sure that in the case of companies that have ceased operations, have moved to another facility, have rented new warehouses, or have made any unusual move, these movements have been timely reported to PROCOMER.
2. Regarding the existence of day care centers and recreation areas, auditors will make sure all required studies have been conducted to find out whether establishing these is appropriate. In the case of industrial parks reporting current day care centers, auditors must make sure the company has the facilities to provide that service.
3. In relation to the room for workers meetings and assemblies, auditors must make sure an appropriate place for this purpose exists.
4. Finally, in relation to infrastructure, auditors will tour the facilities to make sure the park has the minimum infrastructure required by the Free Zone System Bylaws, in line with the master plan maestro submitted by the managing company when applying for admission to the System. Also, they must make sure that:
 - a) The firm has the General Rules on park operation duly approved by PROCOMER and the General Customs Bureau.
 - b) That access to and roads inside the park are adequately maintained.
 - c) That the guards abide by the General Rules on park operation.

CHAPTER XVII

Final Report

Article 21.—**Final Report and Follow-up Audit**

A. OBJECTIVE

Convey to the firm remedial and preventive action to be taken.

B. PROCEDURE

1. The auditors will draft an annual audit report specifying all items to be set right, with the appropriate working papers.
2. A record of the closing meeting will be taken at the time of formally submitting of the final audit report.
3. The final audit report will be developed and signed by the auditors and sent to the company through a letter signed by the Operations Manager.
4. As a result of the Audit, auditors will only be allowed to provide written, never oral, warning.
5. The report must indicate the date to hold a follow-up audit if required.
6. The company will have 15 business days from the date the report was given to specify how it will implement those recommendations or to challenge them.
7. In case of objections, the Operations Management will resolve regarding the firm's request no later than 10 business days after receiving the objection.
8. In case the company is still unsatisfied with report results, it can submit an application for reconsideration within the next five business days. This must be submitted to PROCOMER's General Management Office, which will have 10 business days to resolve.

CHAPTER XVIII

Follow-up Audit

Article 22.—**Follow-up Audit**

A. OBJECTIVE

Ensure that the company has satisfactorily implemented remedial action recommended.

B. PROCEDURE

1. Prior to visiting the company, auditors must provide evidence for the Compliance Report and the answer submitted by the company, as well as any other audit-related report.
2. The auditors must update at the company all work papers related to compliance on investment and employment levels in line with chapters V, VI, and VII.
3. The auditors must check and provide evidence for the proper implementation of recommendations made.
4. When new issues result from recommendation review, then the directions in chapter XVII must be followed.”

San José, July 3, 2007.—Yetty Hernández, Secretary.—One time.—(61096).