

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**  
**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**  
**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE PONCE**  
**AUDITORIA 2003-2004**  
**30 DE JUNIO DE 2004**

*Case/Hos 5-9742*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN  
ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS  
AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

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OFFICE OF THE COMPTROLLER  
GENERAL

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE**  
**REPORTS ON COMPLIANCE AND INTERNAL CONTROL IN ACCORDANCE WITH GOVERNMENTAL  
AUDITING STANDARDS AND THE REQUIREMENTS OF OMB CIRCULAR A-133 AND THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Municipal Legislature  
Municipality of Ponce  
Ponce, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ponce as of and for the year ended June 30, 2004, which collectively comprise the Municipality of Ponce's basic financial statements and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Ponce's basic financial statements are free of material misstatement, we 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test 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, Part 2.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Municipality of Ponce's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving

the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control financial reporting that, in our judgment, could adversely affect Municipality of Ponce's 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, Part 2 as items a-1, b-1, b-2, c-1, and d-1.

A material weakness is a reportable 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 caused by error or fraud 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. Our 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 weaknesses. However, of the reportable conditions described above, we consider items a-1, b-1, and b-2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed instances of noncompliance or other matters 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 a thru f.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 10, 2004

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

To the Honorable Mayor  
and Municipal Legislature  
Municipality of Ponce  
Ponce, Puerto Rico

Compliance

We have audited the compliance of Municipality of Ponce 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, 2004. Municipality of Ponce's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs, Part III. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Ponce's management. Our responsibility is to express and opinion on Municipality of Ponce's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government 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 we 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 Municipality of Ponce's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Ponce's compliance with those requirements.

As summarized below and discussed in detail in the Schedule of Findings and Questioned Costs listed in the Table of Contents, the Municipality did not comply with the federal requirements for the following federal award programs. Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to those programs.

<u>Program</u>	<u>Compliance Requirement</u>	<u>Reference Number</u>
All federal programs	Reporting	04-01
Community Development Block Grant	Reporting	04-02
Community Development Block Grant	Cash Management	04-03
Section 8 - Housing Choice Voucher	Cash Management	04-04
Section 8 - Housing Choice Voucher	Activities Allowed or Unallowed	04-05
Section 8 - Housing Choice Voucher	Allowable Costs/Costs Principles	04-06
Head Start	Allowable Costs/Costs Principles	04-07
HIV Emergency Relief Project Grants	Reporting	04-08

In our opinion, except for the noncompliance identified above, Municipality of Ponce 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, 2004.

#### Internal Control over Compliance

The management of Municipality of Ponce 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 our audit, we considered Municipality of Ponce's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Municipality of Ponce's 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 04-1, 04-2, 04-5, 04-6, 04-7, and 04-8.

A material weakness is a reportable 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 caused by error or fraud 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. Our 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. In addition to the reportable conditions described above, we consider items 04-1, 04-5, and 04-8 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Municipality of Ponce as of and for the year ended June 30, 2004, and have issued our report thereon dated December 10, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico  
December 10, 2004

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED June 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U. S. Department of Agriculture</b>			
Pass through Commonwealth of Puerto Rico			
Education Department			
Child and Adult Care Food Program	10.558	CCC-049	\$ <u>1,019,571</u>
Subtotal of U. S. Department of Agriculture			<u>1,019,571</u>
<b>U. S. Department of Housing and Urban Development (HUD)</b>			
Direct Programs:			
Community Development Block Grant (CDBG)			
Program, Entitlement Grants			
CDBG 03	14.218		5,463,928
CDBG 02	14.218		53,908
CDBG 01	14.218		350,137
CDBG 00	14.218		88,215
CDBG 99	14.218		180,795
CDBG 98	14.218		10,621
Emergency Shelter Grants Program	14.231		278,076
Home Investment Partnerships Program	14.239		321,393
Section 8 Housing Choice Voucher	14.871		7,855,185
Section 8 - Project - Based Cluster:			
Lower Income Housing Assistance Program			
Section 8 - Moderate Rehabilitation I	14.856		407,725
Section 8 - Moderate Rehabilitation II	14.856		<u>201,875</u>
Subtotal of U. S. Department of HUD			<u>15,211,858</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Disbursements/ Expenditures</u>
<b>U. S. Department of Labor</b>			
Pass through Commonwealth of Puerto Rico			
Department of Labor (Employment and Training Administration):			
Workforce Investment Act Cluster:			
Adult Program	17.258		\$ 3,731,894
Youth Activities	17.259		1,335,730
Dislocated Workers	17.260		<u>2,765,285</u>
Subtotal U.S. Department of Labor			<u>7,832,909</u>
<b>U. S. Department of Health and Human Services (HHS)</b>			
Direct Programs			
Administration for Children, Youth, and Families - Head Start	93.600		11,367,256
HIV Emergency Relief Project Grants	93.914		<u>2,739,668</u>
Subtotal of U.S. Department of HHS			<u>14,106,924</u>
<b>TOTAL</b>			<u>\$38,171,262</u>

See notes to Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Ponce's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**2. BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	<u>\$38,171,262</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	15,211,858
Health and Human Services Programs	14,106,924
Workforce Investment Act Program	7,832,909
Federal expenditures included in other governmental funds	<u>1,019,571</u>
Total	<u>\$38,171,262</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. SUMMARY OF AUDIT RESULTS**

- a. The auditors' report expressed an unqualified opinion on the basic financial statements of the Municipality of Ponce.
- b. There were reportable conditions on internal controls over financial reporting.
- c. Instances of noncompliance material to the financial statements of Municipality of Ponce were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs.
- e. The auditors' report on compliance with requirements applicable to federal award programs for the Municipality of Ponce expressed a qualified opinion.
- f. Audit findings relative to the major federal award programs for Municipality of Ponce are reported in number 3 of this schedule.
- g. The programs tested as major programs include:
  - 1) Section 8 Housing Choice Vouchers - CFDA No. 14.871
  - 2) Community Development Block Grant - CFDA No. 14.218
  - 3) Head Start - CFDA No. 93.600
  - 4) HIV Emergency Relief Project Grants - CDFA No. 93.914
  - 5) Workforce Investment Act Cluster:
    - Adult Program - CFDA No. 17.258
    - Youth Activities - CFDA No. 17.259
    - Dislocated Workers - CFDA No. 17.260
- h. The threshold for distinguishing types A and B programs was \$1,182,158.
- i. Municipality of Ponce was determined to be a high-risk auditee based on prior year findings.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**2. FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE BASIC FINANCIAL STATEMENTS**

**a. Budgeting**

**1) Operating Deficit of General Fund (Prior Report Finding Number a-1) (First Reported 1986)**

**Condition**

The Municipality's system of internal control relating to the Budgeting function does not adequately prevent operating management from incurring expenditures in excess of the level of funds appropriated and available. The Municipality closed its fiscal year ended June 30, 2004 with a deficiency in the budgetary financial statements of the general fund of approximately \$22.2 million.

**Criteria**

Article 8.004 Section (b) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico establishes that the Municipality cannot obligate or spend funds in excess of the appropriations for the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the Basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rests with the Finance Director. Also, the Article 7.011, Section (a) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico, establishes that: "If there is an operating deficit at the end of a fiscal year, the municipality is obligated to include in the next year budget the necessary and sufficient sources to respond for the credit of the prior fiscal year."

**Cause**

This occurred because some budgeted revenues, mainly from central government, were not collected during fiscal year ended June 30, 2004.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Effect**

The continued occurrence of this situation could result in the eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

**Recommendation**

The Municipality should include in the next year budget the necessary resources to respond to the deficiency in the general fund from prior and current fiscal years.

**b. Accounting and Finance Department**

**1) Inadequate Accounting Practices and Policies (Prior Report Finding Number b-1) (First Reported 1986)**

**Condition**

The accounting system only provides for the recording of revenues, expenditures, certain balance sheet accounts and a limited number of other transactions. Therefore, the basic financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debits and credits). As a result the records required significant adjustment in order to present the financial position and results of operations of the Municipality in conformity with accounting principles generally accepted in the United States of America.

There were significant differences between the records kept at the accounting department and those for the federal programs. Financial reports for all fund types showing the financial position and results of operations following accounting principles generally accepted in the United States of America are only prepared at the time of the annual audit.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Criteria**

In summary, the current accounting system does not comply with the requirements established in Article 8.010, Sections (b) and (c) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico. These sections provide the following:

**Section (b)** - Municipal accounting will be kept by funds and in conformity with accounting principles generally accepted in the United States of America and the requirements established by the Governmental Accounting Standards Board. Also, it should be based on the pronouncements of the National Committee on Governmental Accounting and the book Governmental Accounting, Auditing and Financial Reporting. This publication should serve as the basis for designing the accounting practices and policies to allow for the preparation of the basic financial statements.

**Section (c)** - The accounting system should provide:

- the complete results of the Municipal operations,
- the proper and necessary financial information for the efficient administration of the Municipality,
- effective controls and the accountability of all the funds, property and other municipal assets,
- information necessary for the preparation of accurate financial reports, that could be used in the preparation of the municipal budget.

**Cause**

The Municipality uses the accounting system for internal purposes, not for external reporting.

**Effect**

The continued failure to have an adequate accounting system prevents the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Recommendation**

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the ledger, as well as the preparation of year-end financial statements in accordance with accounting principles generally accepted in the United States of America. This plan should provide for:

- a) the implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds,
- b) the preparation of periodic financial reports to be submitted to the Mayor, the Finance Director, the Municipal Assembly and all other interested entities,
- c) adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency,
- d) the Municipality should implement monthly reconciliation of the transactions recorded in each of the programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.

**2) Inadequate Accounting for Interfund Transactions (Prior Report Finding Number b-2) (First Reported 1986)**

**Condition**

The Municipality has not established appropriate accounting policies for the recording of interfund transactions. Transfers among different funds are accounted for as "expenditures" in the fund making the transfer and as "revenues" in the receiving fund. There are no subsidiary accounts to accurately account for the interfund receivable and payable balances.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Criteria**

Article 8.010, Section (b) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico establishes that the accounting system will provide for the accounting procedures and records to be maintained in accordance with accounting principles generally accepted in the United States of America applicable to governmental entities.

**Cause**

The Municipality determined the amounts to be presented in the basic financial statements after searching for transfer transactions in its accounting records; this process increases the risk that such transactions could be missed or incorrectly accounted for. No consideration is given to the nature of the transaction as a transfer or as an interfund loan. Accordingly, revenues, expenditures, and interfund receivables and payables were adjusted for financial reporting purposes to conform to the presentation in accordance with accounting principles generally accepted in the United States of America. As of June 30, 2004, the general fund owed \$2,096,088 to HUD, HUD owed \$33,310 to general fund, other funds owed \$242,246 to general fund, and general fund owed \$1,713 to Head Start.

**Effect**

The lack of accounting records for interfund transactions may result in the use of one fund's resources to finance the activities of another fund, and the money not being reimbursed to the proper fund. Since most of the balance results from transfers to the general fund from federal financial assistance programs, they have been reported as questioned costs in previous years' Single Audit reports. Accordingly, there is the possibility that the Municipality may need to refund the balances of the amounts owed to the federal agencies, including the possibility of being assessed penalties and interest costs on such advances.

**Recommendation**

The Municipality should establish and maintain a subsidiary ledger to accurately account for interfund transactions as provided by Article 8.010,

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Section (b) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico. Furthermore, the Municipality should immediately refund amounts owed to the federal funds to prevent the assessment of interest and penalties on such funds.

**3) Inactive and Unnecessary Funds and Accounts are Not Closed (Prior Report Finding Number b-3) (First Reported 1986)**

**Condition**

The Municipality is maintaining funds and accounts that have been inactive for a long period. The Municipality's accounting records include accounts that have been inactive or did not have significant operations during the year 2003-04. The inactive accounts were the followings:

<u>Account Name</u>	<u>Bank Account Number</u>	<u>Balance</u>
Rental Rehabilitation	101-1030000111	\$ 756
Hurricane Georges	101-1030000016	31,360

**Criteria**

Article 8.007 Section (b), of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico establishes that funds should be closed when the fund's objectives have been completed.

**Cause**

This occurs because the Municipality has not analyzed and closed inactive funds as well as the related bank accounts when the funds' objectives have been achieved or are no longer relevant.

**Effect**

The continued maintenance of these funds and accounts exposes the Municipality to the unauthorized use of funds from inactive accounts for activities not intended to be financed with these funds and to accounting errors as a result of inappropriate postings to the accounts.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Recommendation**

The Municipality should determine whether the intended objectives of these funds were met. The Municipality should close all funds that have complied with the requirements. Remaining balances in those funds should be transferred in accordance with local and federal regulations.

**4) Bank Reconciliations Not Properly Signed by Finance Director and/or Subdirector**

**Condition**

The Municipality is not adequately documenting the supervision or the timely management review of the preparation of the bank reconciliations. During our review of a sample of bank reconciliations, we noted that some bank reconciliations were not properly signed as approved/reviewed by Finance Director and/or Subdirector:

- a) Cuenta General (101-1030000154) - April 2004
- b) Patente en Suspenso (071-035-516) - March and April 2004
- c) Cuenta Concentración (071-86-7627) - January, February, March and April 2004.

**Criteria**

Article 8.010 (d), of the Autonomous Municipalities Law and Article E, Section 5 (d) of the Basic Standards establish that the Municipality's will have adequate internal controls to prevent or detect possible errors or irregularities on a timely basis.

**Cause**

This situation occurs because the Municipality is not enforcing the proper documentation of the review and approval of bank reconciliations by the Finance Director and/or Subdirector.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Effect**

Failure to review bank reconciliations may result in errors to pass undetected for an extended period of time or not detected at all, thus increasing the possibility of loss of funds due to unauthorized transactions or errors.

**Recommendation**

The Finance Director and Subdirector should comply with the requirements of the Autonomous Municipalities Law to maintain an adequate internal control environmental over cash, which includes the documentation of the timely review and approval of bank reconciliations by signing and dating upon performance of the required procedures.

**c. Purchases, Payables, and Payments**

**1) Inadequate Controls over Vouchers for Payment and Related Documents**

**Condition**

The Municipality's system of internal control over purchasing and payments is not effectively ensuring the completeness of vouchers for payment and the related documentation. We select a sample of 40 vouchers of ordinary fund and 40 vouchers of other funds to be examined and the following are the exceptions:

<u>Check Number</u>	<u>Voucher Number</u>	<u>Amount</u>	<u>Finding</u>
62135	4000205	\$ 90.00	(a)
61609	3005396	4,757.15	(b)
63804	3006682	60.00	(b)
4192	3006311	55.00	(c)
64177	4001149	2,883.00	(d)

- a) Lack of the certification of no debt from the Treasury Department.
- b) The Municipality made payments to suppliers with debts to governmental agencies.

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- c) The certification of no debt was expired.
- d) The Municipality made the purchase order after they received the invoice.

**Criteria**

Chapter IV, Section 12 and 13 of the Basic Standards for Municipalities of Puerto Rico of the Commonwealth of Puerto Rico, as amended, requires that the Finance Director to keep and safeguard the vouchers, cancelled checks and any other document that justify a payment.

In addition, Article 8.008 of the Autonomous Municipality Law requires that the Municipality should establish procedures to identify debtors and withhold amounts owed from the payment. The failure to comply with this requirement may expense the Municipality to engage in business transactions with ineligible suppliers that owe monies to governmental entities.

**Cause**

The Municipality has inadequate internal controls over retention and the filing of documents due to the lack of an overall control system that provides guidance to the different offices and divisions on the filing and retention requirements of documents.

**Effect**

The Municipality cannot support many of the disbursements made and, therefore, is unable to prove compliance with applicable laws and regulations. In the case of federal funds, the continued occurrence of this situation could result in disallowed cost by the federal awarding agencies and the reduction or elimination of grant awards.

**Recommendation**

The Municipality's management should ascertain that adequate source documentation exists to support amounts and items reported as expenditures. The Municipality should also establish a record keeping system to ensure that accounting records and documentation are retained for the time period

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required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.

Also, the Municipality should require from suppliers to submit annually debt certification from each tax-collecting agency in order to be eligible to do business with the Municipality.

**d. Municipal License Tax – Revenue and Deferred Revenue**

**1) Lack of Supporting Documentation for Municipal License Taxes Files**

**Condition**

During our audit we select a sample of 40 files to examined the Volume of Business Declaration – current fiscal year, and a sample of 40 files to examined the Volume of Business Declaration – for next fiscal year. In our examination we noted the following situations:

- a) Not observed the volume of business declaration, financial statement or income tax return in twenty-one (21) taxpayer files.
- b) One taxpayer tax file was not available for our procedures.
- c) In one municipal tax return the taxpayer received discount of 5% but they submitted the tax return after the due date. The total amount discounted not eligible is \$ 6,251.00.
- d) Five (5) volume of business declaration were not notarized.
- e) In the receipt number 4255282 the amounts disclose for income from municipal tax is different with the income register.

**Criteria**

Chapter IX of the Basic standards establishes the procedures to be followed for filing and collection the municipal license taxes.

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**Cause**

The Municipality is not properly reviewing the municipal license tax returns when received. In addition, they do not follow up those cases when the taxpayer filed an extension.

**Effect**

The continued failure to verify the correctness of the Volume of Business Declarations filed by the taxpayers prevents the Municipality from collecting the correct amount of taxes.

**Recommendation**

The Municipality should train and assign a person to the Municipal License Tax Department that could perform the required procedures and give follow up to taxpayers that did not comply with the law.

**e. Construction Excise Tax Revenue**

**1) Construction Excise Tax Files not Available**

**Condition**

The Municipality could not provide us four (4) files related to construction excise tax from a sample of 40 files.

<u>Name</u>	<u>Official Receipt Number</u>	<u>Amount</u>
Professional Contractor	4246871	\$ 1,452.00
FM Rebollar	4253896	555.00
Sonia A. Diaz Santiago	4255548	951.07
C& E Construction	4260112	2,917.95

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**Criteria**

Article 2.007 of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico establishes that the person responsible of the realization of the project should file to the Finance Department of the Municipality an Activity Declaration that describe the costs of the project to be realized. In addition, Chapter III, Section 5 of the Basic Standards establish that the Finance Director will be responsible for safeguarding and keep the documents and files available for examination from Comptroller's Office of Puerto Rico and the Commissioner of Municipal Affairs.

**Cause**

The Municipality's internal control procedures regarding the filing of documents are inadequate.

**Effect**

The continued failure to maintain adequate documentation of construction excise tax files prevents the Municipality from having current accurate and reliable reports.

**Recommendation**

The Municipality should ascertain that adequate source documentation of construction excise tax files exists to support any amounts reported in the general ledger.

**f. Payroll and Personnel**

**1) Incomplete Documentation in Employee Files**

**Condition**

The Municipality's system of internal control over payroll and personnel is not effectively ensuring the completeness of the employees files. We performed a payroll test where we selected 60 files to be examined. The findings of this test were the followings:

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- a) In 2 files, which represents a 6%, we did not observe the copy of employees' social security card.
- b) In 9 files of employees, which represents a 17%, the health certificate was not observed.
- c) In 3 files of employees which represents a 5%, the certificate of good behavior was not observed.
- d) In 1 file of employee, which represents a 1%, the federal form I-9 was not observed.
- e) In 1 file of employee, which represents a 1%, the certificate of birth of the employee was not observed.

**Criteria**

The Article 11.023 of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico establishes that the Municipality should maintain a file of its employees that reflects the complete employment record since the initial date on the public service through the date of definitive separation from the service.

**Cause**

The Personnel Department failed to obtain the employee documentation required by the Municipality's Regulation.

**Effect**

The continued failure to maintain adequate documentation prevent the Municipality from having accurate and complete employee records.

**Recommendation**

The Municipality should revise the employee files and require to the employees the information necessary to complete the records.

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**3. FINDINGS ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO FEDERAL PROGRAMS**

**a. Finding Related to Federal Programs that Have a Separate Accounting  
Department and Administrative Unit**

**1) Condition 04-01: Lack of Reconciliation Procedures (Prior Report  
Finding Number SA-02-01) (First Reported 1988)**

**Condition**

The Municipality has not established the appropriate system of internal control to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained at the Municipality. Funds received from the U.S. Department of Housing and Urban Development for the Community Development Block Grant and Section 8 Clusters and HIV Emergency Relief Project Grants are managed by their own administrative personnel including their own accounting departments. Each maintains a separate set of accounting records kept on a double entry system. However, the Municipality's central accounting department, has not established the necessary policies and procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded in the Municipality's central accounting department.

**Criteria**

The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.

**Cause**

The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments.

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**Effect**

This condition results in the possibility of not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality's financial operations.

**Questioned Costs**

None.

**Recommendation**

The Municipality should implement monthly reconciliations of the transactions recorded in each of the programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.

**b. Community Development Block Grant (CDBG) (CFDA 14.218)**

**Program Description**

The primary objective of the CDBG Program is the development of viable urban communities, decent housing, suitable living environment, and expanded economic opportunities, principally for persons of low and moderate income. This is to be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of three national objectives: (1) benefitting low and moderate-income persons; (2) aiding in the prevention or elimination of slums or blight; (3) meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community, and where other financial resources are not available to meet these needs. Secondly, the grantee must spend at least 70% of its funds over a period of up to three years specified by the grantee in its certification for activities that address the national objective of benefitting low- and moderate-income persons.

This Program is conducted by metropolitan cities and urban counties that must submit certain certifications along with a statement as to how they propose using

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the funds for community development activities. The grant amount is based on a formula that considers the community's population, poverty, extent of overcrowded housing, age of housing, and growth lag.

The CDBG Program also provides for the granting of loan guarantees under HUD Section 108, Loan Guarantee Assistance (LGA). Accordingly, these activities are included as part of the CDBG audit. Findings related to the LGA Section 108 program, if any, will be identified as such.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the CDBG federal financial assistance program.

**1) Condition 04-02: Federal Cash Transaction Report is Inaccurate (Prior Report Finding Number SA-03-03) (First Reported 1992)**

**Condition**

The Municipality's system of internal control relating to the preparation of Federal Transaction Cash Reports is not effective. The Municipality is not ensuring that the SF-272 Federal Cash Transaction Report submitted to the federal grantor contains accurate financial information. The report as of June 30, 2004 showed the following errors:

<u>Line on Report</u>	<u>Amount per Report</u>	<u>Amount per Books</u>	<u>Difference</u>
Line 11J-Cash on hand end of period			
September 30, 2003	\$ 119,413	\$ 191,917	\$ (72,504)
December 31, 2003	107,266	228,409	(121,143)
March 31, 2004	29,787	63,957	(34,170)
June 30, 2004	44,643	42,201	2,442

**Criteria**

The 24 CFR Section 85.20 (b) (1) establishes that federal funds recipients will have a financial management system that will provide for the accurate, current and complete disclosure of the financial results of financially assisted activities.

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**Cause**

The above differences result from prior year adjustments not being recorded on a timely basis in the accounting books of the Program and/or are due to the lack of reconciliation procedures between the books and financial reports submitted to the federal grantor.

**Effect**

The continued occurrence of this situation may result in sanctions by the federal grantor because the information provided in the FSR does not allow them to adequately monitor and evaluate the Program's financial performance.

**Questioned Costs**

None.

**Recommendation**

Program management should review and corroborate the information included in the FSR before submission to the federal grantor to ensure that all information is accurately presented. In addition, whenever significant adjustments or modifications are deemed necessary, the Municipality should amend submitted reports and include the appropriate supporting explanations.

**2) Condition 04-03: Inadequate Cash Management Procedures (Prior Report Finding Number SA-03-04) (First Reported 1994)**

**Condition**

The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds. We selected 30 cash requisitions, and within these requisitions we selected 316 expenditures paid and noted that for 6 of them (2%) the payment was made as follows:

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<b>Request Voucher Number</b>	<b>Date of Receipt of Funds</b>	<b>Amount of Funds</b>	<b>Check Date</b>	<b>Passed Workable Days</b>	<b>Beneficiary</b>	<b>Check Number</b>	<b>Amount</b>
921146	8/28/03	\$ 1,548.59	09-5-03	6	Secretario de Hacienda	6413	\$ 77.36
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	966.18
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	140.00
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	10.70
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	80.00
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	6.07
921146	8/28/03		09-4-03	5	Tesorero Municipal	Dr	17.75

Dr= Debited from the account

**Criteria**

The 24 CFR Section 85.20(b) (7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

**Cause**

The above delays are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

**Effect**

The continued occurrence of this condition may expose the Municipality to the assessment of interest costs relating to the excess cash on hand which would be paid from local funds.

**Questioned Costs**

None.

**Recommendation**

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are

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going to be disbursed immediately after receipt, or within three (3) business days.

**c. Section 8 - Housing Choice Voucher (CFDA 14.871)**

**Program Description**

The Section 8 Housing Choice Voucher (HCVP) objectives are to provide rental assistance to help very low-income families afford decent, safe and sanitary rental housing. The subsidy provided by the Program is considered tenant-based subsidy because when an assisted family moves out of a unit leased under the Program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance.

Under the Housing Choice Voucher Program, apart from the requirement that the rent must be reasonable in relation to rents charged for comparable units in the private unassisted market, there is no limit on the amount of rent that an owner may charge for a unit. However at initial occupancy of any unit where the gross rent exceeds the payment standard, but a family may not pay more than 40 percent of adjusted monthly income toward rent and utilities. A voucher subsidy is set based on the difference between the PHA's applicable payment standard for the family or the gross rent and the total tenant's payment (generally 30 percent of the family's monthly-adjusted income). This is the maximum quantity of the subsidy that a family may receive regardless of the rent the owner charges for the unit. The approximate number of participants during the year ended June 30, 2004 for the program was 1,440.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to these federal financial assistance programs.

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**1) Condition SA-04-04: Inadequate Cash Management Procedures (Prior Report Finding Number SA-03-07) (First Reported 1987)**

**Condition**

The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is holding excessive cash balances in its bank accounts. During our audit of the bank reconciliations of the Program cash accounts, we noted that the average balance on hand significantly exceeded the average cash need of the Program. Following is a list of the average balances of cash on hand for the Program, as well as during the fiscal year:

<u>Month Ended</u>	<u>Deposits</u>	<u>Disbursements</u>	<u>Transfers to Other Programs</u>	<u>Book Balance</u>
Beginning Balance				\$ 2,191,093.37
7/31/2003	\$ 756,385.81	\$ 624,625.36	\$ 77,395.92	2,245,457.90
8/31/2003	734,442.93	603,242.03	35,505.24	2,341,153.56
9/30/2003	736,167.59	708,929.68	47,172.27	2,321,219.20
10/31/2003	710,995.64	654,698.15	32,972.28	2,344,544.41
11/30/2003	717,000.04	626,238.52	23,159.88	2,412,146.05
12/31/2003	220,879.35	695,829.04	85,140.39	1,852,055.97
1/31/2004	776,976.66	646,918.45	69,662.79	1,912,451.39
2/28/2004	782,886.73	643,192.46	52,116.42	2,000,029.24
3/31/2004	785,440.83	653,041.39	51,343.73	2,081,084.95
4/30/2004	781,987.38	683,450.34	55,412.96	2,124,209.03
5/31/2004	784,434.80	646,683.98	53,649.86	2,208,309.99
6/30/2004	789,391.62	661,842.71	59,253.50	2,276,605.40
	<u>8,576,989.38</u>	<u>7,848,692.11</u>	<u>642,785.24</u>	<u>26,119,267.09</u>
Average per month	<u>\$ 714,749.12</u>	<u>\$ 654,057.68</u>	<u>\$ 53,565.44</u>	<u>\$ 2,176,605.59</u>

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**Criteria**

The 24 CFR Section 85.20(b) (7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time elapsing between the receipt of funds and their disbursement for expenditures.

**Cause**

The above conditions are the result of inadequate cash forecasting procedures since the Municipality has requested and received federal funds in excess of its immediate needs since there is cash on hand to cover future needs.

**Effect**

The continued occurrence of this condition may expose the Municipality to the assessment of interest costs on the excess cash on hand, which would be paid from local funds.

**Questioned Costs**

None.

**Recommendation**

The Municipality should use cash on hand before requesting additional funds.

**2) Condition SA-04-5: Amounts Due from General Fund (Prior Report Finding Number SA-03-08) (First Reported 1992)**

**Condition**

The Municipality has not reimbursed the federal program for the federal funds used to finance the general fund's activities. As of June 30, 2004, a balance of \$1,006,523 remained outstanding for funds that were transferred to the Municipality's general fund in prior years. The transfer represents an instance of noncompliance with an executive order issued by the Mayor in August 1992.

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**Criteria**

The 24 CFR Section 570.200 establishes the various allowable activities to be financed with federal funds. However, none of the sections under this Title allows the transfer of federal funds to finance the activities of the general fund.

**Cause**

The Department of Finance failed to monitor and control transfers of federal funds to a general fund, which were realized without the proper authorization from the federal grantor.

**Effect**

This condition permits the financing of the general fund activities with federal funds and places additional financial limitation on the performance of the activities approved under the federal grant. Accordingly, the continued failure to reimburse the federal program may expose the Municipality to the assessment of interest costs and penalties in relation to the use of these funds.

**Questioned Costs**

None since this amount has been included as a questioned cost in previous years Single Audit reports.

**Recommendation**

The general fund must reimburse the federal program the amount owed as soon as possible. In addition, the Municipality should not permit transfers of federal funds to finance activities not approved by the Federal grantor and that are not in accordance with the grant agreements.

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**3) Condition SA-04-6: Inadequate Documentation of Participant Files Procedures (Prior Report Finding Number SA-02-10) (First Reported 1986)**

**Condition**

The Municipality's system of internal control over compliance with the documentation of participant files is not working effectively. During our audit of the participant files in the Section 8 Program, we noted that the Municipality was not maintaining the required documents and information in each file to support participants' eligibility as required by Section 8 Program regulations.

During our tests of eligibility requirements, we tested twenty-five (25) participant files and noted the following exceptions:

<u>Contract Number</u>	<u>Monthly Rent</u>	<u>Exceptions</u>
1011-V	\$480	a
249-2V	400	a
548-2V	475	a
1372-V	350	a
014-V	464	a
746-2V	340	a
827-2V	500	a
1357-V	425	c
1372-V	350	b
1445-V	400	c
827-2V	500	c
924-2V	515	c
703-V	440	d
1496-V	464	e
029-D	371	f
099-D	371	f

- a. The unit pass the HQS but the inspection form indicated that the unit has not smoke detectors.

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- b. Lack of the reasonable rent analysis.
- c. The inspection report (Form HUD-52580-A) was incomplete.
- d. Lack of evidence that the person is a full-time student for the year 2003-04.
- e. The tenants rent payment does not agreed.
- f. The Private Act Notice Form was not signed.

**Criteria**

24 CFR Sections 882-113, 882-209, 882-214, 882-412, 882-514, 882-515, 882-518, 883-711, 883-704, 889-103, 982.4, 982.54 (d) (15), 982.158 (f) (7), 982.158 (d), 982.405 (b), and 982.404 establish that the PHA is required to accept applications for admission to the projects, determine whether the applicants are initially eligible, and on a yearly basis, reexamine family income, composition, and contribution to rent, utilities reasonable rent and housing quality standards inspections. In addition, the Municipality should verify that the information submitted by participants is reliable.

**Cause**

All of the above matters occur because the Municipality's system of internal control relating to the compliance requirements is not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy. The current procedures do not effectively reduce the risk of ineligible participants receiving program benefits.

**Effect**

The continued failure to establish internal control over compliance with the above requirements exposes the Municipality to unauthorized use or disposition of the program's resources.

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**Questioned Costs**

None.

**Recommendation**

The Municipality should design and adopt a checklist that includes all the related documents that must be completed for each participant file. The checklist should be completed during the initial processing and revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures will help to improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

**d. Administration for Children, Youth and Families (“Head Start”) (CFDA 93.600)**

**Program Description**

The objectives of the Head Start Program are to provide comprehensive health, educational, nutritional, social, and other services to economically disadvantaged preschool children so that the children will attain overall social competence. Parents also participate in various decision-making processes related to the operation of the program.

Grants are made by the Administration for Children, Youth and Families, (“ACYF”), to community action agencies, limited purpose agencies and units of local government who operate the program or assign the activity to one or more delegate agencies identified in the grant application. Each grantee and delegate agency generally operates the program through several locations.

The following findings and recommendations arise from our tests of compliance and internal control over compliance with requirements applicable to the Head Start federal financial assistance program.

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**1) Condition SA-04-7: Failure to Meet Full Enrollment Level (Prior Report Finding Number SA-03-12) (First Reported 1986)**

**Condition**

The Municipality is not achieving the necessary enrollment levels for the Program. The Program did not maintain a full enrollment for the academic year ended December 31, 2003 as required by the funding agreement with the Federal grantor. The total funded (required) enrollment and actual enrollment were as follows:

Total funded enrollment for the year (required enrollment)	1,752
Total actual enrollment for period ended December 31, 2003	<u>1,712</u>
Enrollment not met	<u>40</u>

**Criteria**

45 CFR Part 1305, establishes that enrollment is an ongoing process, and maintenance of a full enrollment level depends upon the success of the recruitment program. The Head Start Program must maintain an enrollment level equal to its funded slots and must try to fill vacancies as soon as they occur in order to maintain full enrollment. All vacancies must be filled within 30 calendar days.

**Cause**

This exception results because the Municipality is requesting funding for the enrollment of 1,752 for Head Start participants, while available facilities can only hold a maximum of 1,712 participants. In addition, full enrollment is not achieved at all locations.

**Effect**

The failure to comply with the required enrollment level may result in cost disallowances by the federal grantor since cost per child served exceeds the budgeted cost per child based on the funded enrollment approved.

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**Questioned Costs**

None.

**Recommendation**

The Municipality should obtain additional facilities in order to be able to meet the full enrollment level or reduce the funding requirement, when requesting funds. Also, the Municipality should consider evaluating the effectiveness of the enrollment process at those locations where full enrollment is not met, and close either the facilities or change location to an area where full enrollment can be met.

**e. HIV Cluster - HIV Emergency Relief Project Grants (Ryan White) (CFDA 93.914)**

**Program Description**

The objective of the HIV Emergency Relief Project Grant Program (Ryan White) is to provide emergency financial assistance to localities that are disproportionately affected by the Human Immunodeficiency Virus (HIV) epidemic to develop, organize and operate programs that provide an effective, appropriate and cost-efficient system for the delivery of essential services to individuals and families with HIV disease.

Funds received under a grant are to be used to provide direct financial assistance for the purpose of delivering or enhancing HIV - related outpatient and ambulatory health and support services, including case management and comprehensive treatment services, for individuals and families with HIV disease; and inpatient case management services that prevent unnecessary hospitalization or that expedites discharge, as medically appropriate, from inpatient facilities.

The Program priorities are the following:

**Primary Medical Care - Medication Treatments:** this service is expected to increase the availability of medication treatments to the existing HIV/AIDS population. It consists mainly of providing medications, primarily retroviral, to HIV patients.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Home Care:** provide care to patients in a home environment.

**Laboratory/Diagnostic Services:** aimed to provide identified HIV patients with follow-up laboratory procedures and tests. It is intended to expand the availability of lab tests to patients in order to facilitate the delivery of adequate medication.

**Home Delivery Meals:** a supplemental feeding program that will help the patients to maintain an appropriate level of nutrition by offering daily home delivered meals.

**Case Management:** maximize the utilization of trained personnel who will take a meaningful interest in the progress of the patient and who will continually aid the patient and family members in scheduling and receiving services, in making adjustments to daily life, and in facing the uncertainties of the disease with a considerable amount of personal support from knowledgeable professionals.

**Transportation:** consists of providing transportation services to patients.

The following finding and recommendation arise from our tests of compliance and internal control over compliance requirements applicable to the Ryan White federal financial assistance program.

**1) Condition SA-04-8: Lack of Formal Accounting Records to Support Federal Financial Reports (Prior Single Audit Finding Number SA-03-14) (First Reported 1999)**

**Condition**

The Municipality does not maintain a self-balancing set of accounts or any type of formal accounting records to account for the transactions and payments of the Program.

The Program does not maintain a formal set of books and accounts. Instead, spreadsheet-based records support accounting and reporting. Therefore, the Program does not have current accurate and complete information with regards to the programs' assets, liabilities, obligations, or unobligated balances, nor is their proper accountability and internal control at program level for the assets owned by the Program. In addition, there is no accurate

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

comparison of actual expenditures against budgeted amounts at the account level.

**Criteria**

The 45 CFR Section 92.20(b)(2) establishes that grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Furthermore, Section 20(b)(3) establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Also, Section 20(b)(4) establishes that actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

**Cause**

This has occurred because the Municipality has exercised inadequate oversight over the accounting functions of this Program by not requiring the establishment of a separate set of books for this Program. Instead, the Municipality has permitted the maintenance of informal accounting records, such as spreadsheets, to support the accountability of a major federal program.

**Effect**

Failure to maintain adequate accounting records may result in transactions not being accounted for, in the recording of unauthorized transactions, the unauthorized use or disposition of program assets or in the preparation of inaccurate or incomplete federal financial reports. Therefore, any amounts not used in accordance with program guidelines, or any unauthorized disposition of assets may result in cost disallowances. Furthermore, failure to compare actual expenditures with approved budget at the account level may result in cost disallowances for exceeding approved budgets.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Questioned Costs**

None.

**Recommendation**

The Municipality must establish a self-balancing set of accounts for the program and require the accurate and complete maintenance of a full set of accounting records to provide proper accountability over program assets, as well as to enhance the internal controls over these assets, and over the preparation of federal financial reports.

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF PONCE**

**PART IV**

**SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS  
AND QUESTIONED COSTS**

-40-

**ORTIZ, RODRIGUEZ, RIVERA & CO.**

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF STATUS OF PRIOR YEARS  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Years Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>CDBG CFDA No. 14.218</b>	<b>Condition SA-02-07:</b>  Interest earned not remitted to federal grants.	Condition was corrected.
<b>HUD Disaster Recovery Initiative (Grant Number B-98MU-72-0003</b>	<b>Condition SA-02-011:</b>  Inadequate cash management procedures.	Condition was corrected
<b>HUD Disaster Recovery Initiative (Grant Number B-98MU-72-0003</b>	<b>Condition SA-02-12:</b>  Non compliance with Period of Availability of Federal Funds	Condition was not observed.
<b>HUD Disaster Recovery Initiative (Grant Number B-98MU-72-0003</b>	<b>Condition SA-02-13:</b>  Ineffective controls over preparation and submission of federal financial reports.	Condition was corrected.
<b>HUD Disaster Recovery Initiative (Grant Number B-98MU-72-0003</b>	<b>Condition SA-02-14:</b>  Noncompliance with earmarking requirements.	Condition was corrected.
<b>Loan Guarantee Assistance (Section 108 HUD)</b>	<b>Condition SA-02-21:</b>  Amounts due from general fund.	Condition was not corrected.
<b>Loan Guarantee Assistance (Section 108 HUD)</b>	<b>Condition SA-02-22:</b>  Noncompliance with pledge requirement.	Condition was not corrected.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<b>Loan Guarantee Assistance (Section 108 HUD)</b>	<b>Condition SA-02-23:</b> Failure to monitor program-income producing activities.	Condition was not observed.
<b>Welfare to Work</b>	<b>Condition SA-02-24:</b> Inadequate cash management procedures.	Condition was not observed.
<b>HIV Cluster</b>	<b>Condition SA-02-26:</b> Ineffective monitoring procedures.	Condition was corrected.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**PART V**  
**CORRECTIVE ACTION PLAN**

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**RESPONSES TO FINDINGS ON COMPLIANCE AND ON INTERNAL CONTROL**  
**OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE BASIC**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004 AND CORRECTIVE ACTION PLAN**

**a. Budgeting**

**Finding 2a(1) – Operating Deficit of General Fund (Prior Report Finding Number a-1)**  
**(First Reported 1986)**

The General Fund's Budget for the fiscal year ended June 30, 2004, included the amount of \$9,053,352 of estimated revenues related to license and permits. It represents revenues that the Municipality of Ponce projected to receive from the construction of various projects to be performed by the Central Government.

This amount was supported by the permits receipts from the Licenses and Permits Office of the Municipality of Ponce. However, the Central Government did not perform all the projects, so the revenues expected were not received by the Municipality. The total amount received by this concept was \$5,751,420, a reduction of \$3,000,000 approximately.

In addition, non current revenues expected such as a legal claim to a Governmental Agency named "Autoridad de Energía Eléctrica" for the amount near to \$4,400,000, were not received during the year. The \$4,400,000 is composing of: 3,400,000 of lieu of taxes and lightings installations cost reimbursement for the amount of \$1,000,000 approximately. The governmental agency is still investigating the claim. We hope this case be resolved soon and the funds be sent to the Municipality.

Another revenue the Municipality does not received from non current revenues was the compensation amount for \$9,000,000 assigned and approved on 2003-04 from a lawsuit against Central Government gained by the Municipality. The total compensation amount sentenced by the Court was \$59,000,000 which \$9,000,000 was received on 2002-03. As of this date, during the current year the Municipality has been received about \$5,000,000 from the amount assigned to 2003-04.

Aware of this and as a control method, the Municipality's Management reduced the expenditures incurred during the year until the revenues be received. During the year the Municipality reduced expenditures for \$431,518, from the amount originally budgeted.

The Municipality of Ponce has adequate internal control to prevent expenditures in excess of the level of funds appropriated and available, but does not have control for the decisions taken on

Central Government. The Municipality depended on the Central Government to perform all the projects that will bring revenues in the amount budgeted. The projects performed by the Central Government only realized taxes constructions revenues of \$5,751,420, \$3,000,000 less than expected.

The Statement of Revenues, Expenditures and Changes in Fund Balance, show a deficiency of revenues under expenditures of \$27,111,975. This amount included the effect to recognize the disbursements (capital outlays), of \$32,878,321, for which the Municipality have appropriated funds in the Governmental Development Bank of Puerto Rico, but neither of those amounts (the capital outlays neither the funds deposited in the Governmental Development bank) were included in the General Fund budget.

Some actions were taken to prevent and anticipate this situation. On February, 2004 the Municipality made a refinancing of the debt with Banco Popular of Puerto Rico for the amount of \$64,715,000 which \$8,000,000 were to offset the operational deficit. The refinancing of the debt will produce other sources of revenues in the future. From the amount refinancing 64,715,000, \$20,000,000 was deposited in a new cash account that earns interest revenues and the principal of this amount will be used to pay Municipality projects. In addition, before the refinancing of the debt the payment from the ordinary funds for the long term obligation was \$5,468,005 and after the refinancing this amount down to \$1,762,573, resulting an economy of \$3,705,432. This economy can be used for other expenditures of services. Also the principal payment for long term obligation CAE was reduced by \$2,666,297 annually. This will help the Municipality in its future operations and to comply with its mainly function that is offering service to the city.

In addition, revenues advances from "Banco Gubernamental de Fomento" for the amount of \$10,000,000 were requested at the end of the fiscal year 2003-2004, to improve the financial condition. As a result, the Fund Balances show an excess of revenues over expenditures for \$2,000,000.

The management will make all the efforts necessary to continue implementing control measures and undertaken certain projects to significantly improve the Municipality's financial position.

 Responsibility: Hon. Francisco Zayas Seijo, Mayor  
Mr. Carlos R. Jirau Vélez, Esq., City Manager  
Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mrs. Myrna Ortiz Alvarado, Sub- director

Timetable: During the year 2004-2005

**b. Accounting and Finance Department**

**Finding 2b(1) – Inadequate Accounting Practices and Policies (Prior Report Finding Number b-1) (First Reported 1986)**

Since 1999-00 the Finance and Budget Directors submitted periodical financial reports to the Mayor and to the City Manager in order to take decisions about the financial position of the Municipality. This information has helped management to analyze results of operations and prepare cash flow projections and consequently, to better manage its operational budget. Based on the result of those reports, the management reduce the expenditures of the fiscal year 2003-2004 for \$431,518 from the amount originally budgeted.

In addition, to improve the understanding of the accountings transactions, financial consultants offered some training to the accounting staff. This helped to maintain adequate accountings records.

Also, the management of the Municipality with the assistance of the System Information Consultant substantially improved the functions of the computerized accounting system. Since the 2000-2001 fiscal year, all accounting records includes the federal programs transactions as integrated to the computerized accounting system.

The computerized information system at the Municipality known as SIGM@ (for its Spanish initials) records substantially all the transactions of the Municipality. It captures all revenues collections recording them to revenues and cash accounts in the on line system at the same time. The disbursements cycle records the expense account at the same time the voucher payable is created on the system and the related voucher payable account. The same occur with the payments. When a payment check is issued, the voucher payable is debited and the related cash account credited. The system also maintains records of substantially all expenditures.

The General Ledger application of the information system integrates all other accountings modules as revenues, disbursements and accounts payable. All of these transactions can be verified and traced to the General Ledger Report in a monthly basis.

Even though there are not records for long term obligations in the information system, the Finance Department keep records manually in order to maintain this information actualized. The Municipality's Administration could know at any time which is the balance of the long-term debt when a percent of project was completed.

The accounting system of the Municipality of Ponce is the result of a genuine effort of management to capture quality data to prepare the annual financial statements. This year the Municipality's Management has the engagement to maximum the efficiency of the information system in order to produce its own financial statements.

The required adjustments at the year to conform financial statement presentation under modified accrual basis of accounting are the same as those required at any existing system in other municipalities with a limited functions but it does not represent a record keeping deficiency.

The Municipality of Ponce always has been interested to improve its accounting system. To enforce this statement, the management has visited other municipalities to review the recently changes in their accounting systems for a fully integrated accounting system in compliance with the statement of Governmental Accounting Board Number 34. Also the Municipality's management is evaluating proposals to upgrade its system to ensure full compliance with external requirements.

The Comprehensive Annual Financial Report of Municipality of Ponce for the year ended June 30, 2002 was awarded with the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officer Association of the United States and Canada (GFDA).

In addition, since 2000-2001 the Municipality of Ponce received from the Comptroller of Puerto Rico a Certificate of Compliance with Standards for Municipal Administration. These achievements could not be joined if the municipality's accounting system was not successful.

It is a management commitment the continuous enforcing to ensure the upgrade financial accounting system up to obtain the highest standards.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mrs. Myrna Ortiz Alvarado, Sub-director  
Mr. Carlos R. Jirau Vélez, Esq., City Manager

Timetable: During the year 2004-2005

**Finding 2b(2) – Inadequate Accounting for Interfund Transactions (Prior Report Finding Number 02-04)**

To correct this finding the Finance and Budget Director in coordination with the Sub-director and the Supervisor of the Information System Division, will implement and maintain subsidiary records to account for the inter-funds receivable and payable balances. The System's Information Consultant is in charge to develop the software for the inter-funds transactions to the accounting system as per instructions of Finance and Budget Director. The time term to finish this project is about five or six months.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable: During the year 2004-2005

**Finding 2b(3) – Inactive and Unnecessary Fund and Account are Not Closed (Prior Report Finding Number b-3) (First Reported 1986)**

In order to correct this finding the Municipality has taken the action to evaluate and analyze those accounts and funds that are inactive. The Municipality has investigated the objectives and purposes for its creations.

In the case of Hurricane Georges funds, the Municipal Legislature issued a Resolution for authorize the collections of funds for the damages caused by Hurricane Georges. In this Resolution the Legislature did not establish any decree that states the account not be closed until the funds were expended. In this case, the objective was completed, no claim exits through these funds and no activity has performed since 2000 year. By all of this, the account was closed on March 2, 2005 for the amount of \$31,464.19 and these funds were transferred to ordinary fund account. The Finance and Budget Department has the supporting documentations.

The Rental Rehabilitation account was closed on February 16, 2005. The remaining balance of the account was of interests earned during the last years. A check was issued to US Treasury for the balance of the account. The Finance and Budget Department has the supporting documentations.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mrs. Myrna Ortiz Alvarado, Sub- director

Timetable: During the year 2004-2005

**Finding 2b(4) – Bank Reconciliations Not Properly Signed by Finance Director and /or Sub-director**

The Municipality is aware that the banks reconciliations should be properly reviewed and signed on time by the Finance and Budget Director and/or Sub-director.

To correct this finding, the Municipality implemented a monthly check list that includes all bank accounts. When the banks reconciliations are delivered to the Finance Director the checklist should be attached. The Finance and Budget Director and the Sub-director once signs them have to make a checkmark and write their initials at the side of the name of account. This will ensure that all banks reconciliations be reviewed and signed.

However, this failure did not cause errors to pass undetected or loss of funds.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mrs. Myrna Ortiz Alvarado, Sub- director

Timetable: During the year 2004-2005

**c. Purchases, Payables and Payments**

**Finding 2c(1) – Inadequate Controls over Vouchers for Payment and Related Documents**

To attend the situations include in this finding, the Finance and Budget Director gave instructions to the Accounting Department and made a reminder to the Office Directors, about the documents and certifications required for payments.

This finding did not include payments made with federal funds.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mrs. Myrna Ortiz Alvarado, Sub- director

Timetable: During the year 2004-2005

**d. Municipal License Tax – Revenue and Deferred Revenue**

**Finding 2d(1) – Lack of Supporting Documentation for Municipal License Taxes Files**

The following are the correctives actions taken by the Municipal Licenses Tax Office related to findings included in the Single Audit:

**(a) Not observed the volume of business declaration, financial statements or income tax return in twenty-one (21) taxpayer files.**

In order to avoid the recurrence of this finding, the Municipal Tax License Office will implement the use of a check list in each taxpayer file to ensure that all required documents are included in the files.

**(b) One taxpayer file was not available for our procedures.**

As a corrective action the Municipal Tax License Office will keeps records of taxpayer files requesting by external users. To strengthen this internal control a receipt card will be included in each file drawer in which the internal users should make a note of the files taken. It will include the name of the person who took the file and the date.

**(c) In one municipal tax return the taxpayer received discount of 5% but they submitted the tax return after the due date. The total amount discounted not eligible is \$6,251.**

To avoid the recurrence of this situation, beginning on April 2005 personnel assigned to the Municipal Tax License Office will verify the stamped date in the envelope in which the taxpayer send the payment with the volume of business declarations. If the taxpayer takes a discount after the due date, an invoice will be send for the amount of discount.

A necessary adjustment will be made in the information system account and an invoice will be sent to the mentioned taxpayer for the amount of \$6,251.00 plus interests and late charges.

**(d) Five (5) volumes of business declarations were not notarized.**

Beginning on April, 2005, personnel assigned to the Municipal Tax License Office will verify that each volume of business declaration submitted for the year 2005-2006 be notarized.

If any declaration is not notarized, that personnel will send a notice to taxpayer requiring visit the Office to complete this requirement.

- (e) In the receipt number 4255282 the amounts disclose for income from municipal tax is different with the income register. (Receipt: \$146.30 and Recorded on books: \$242.59)

The adjustments entries necessities to correct this error were made on March 3, 2005.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mr. José Pérez Vélez, Supervisor

Timetable: During the year 2004-2005

**e. Construction Excise Tax Revenue**

**Finding 2e(1) – Construction Excise Tax Files not Available**

The Finance and Budget Director gave instructions to the Tax Collectors in order to include the case numbers assigned by the Permits Office in the receipts related to construction excise tax. If the Collectors include this number in the receipts, the Permits Office could provide the files quickly.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director  
Mr. José Pérez Vélez, Supervisor  
Mr. Edgar Seda Troche, Interim Director of Permits Office

Timetable: During the year 2004-2005

**f. Payroll and Personnel**

**Finding 2f(1) – Incomplete Documentation in Employee Files**

The files include in this finding are from employees recruited from 1979 to 1987. This sample does not represent the effectiveness of the Municipality's system of internal control related to the hiring procedures during the fiscal year 2003-04.

However, in attention with the auditor's recommendation, the unit in charge of personnel files revised the employee files include in this finding and requested to the employees the information necessary to complete the records.

Responsibility: Mrs. Evelyn Serpa Soto, Human Resources Director

Timetable: During the year 2004-2005, continuously

**RESPONSES TO FINDINGS ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO FEDERAL PROGRAMS  
AND MANAGEMENT'S CORRECTIVE ACTION PLAN**

**a. Finding Related to Federal Programs that Have a Separate Accounting Department and Administrative Unit**

**1) Condition 04-01: Lack of Reconciliation Procedures (Prior Report Finding Number SA-02-01) (First Reported 1988)**

On October, 2004 the Municipality established on a monthly basis the reconciliations of bank accounts and accounting records of Federal Program Community Development Block Grant and the Central Accounting Department. The Finance and Budget Director assigned these functions to new personnel in order to maintain both records balanced.

The Community Development Block Grant has a proformat reconciliation that is authorized by the Federal Administration Program. No other way of reconciliation is accepted and they are in the obligation to prepare the reconciliation as established by the federal agency. The Municipality prepares a worksheet monthly that shows the discrepancies with its justifications in both reconciliations.

The differences encountered mainly due to an outstanding payroll checks amounts and the positive balance on payroll account at the end of month. The difference resulted in an overdraft on payroll account that the money should be transferred automatically by the bank from the current account. This did not happen. The personnel who work with the reconciliation on the Federal Program consider it as a disbursement. As of December 31, 2004 the records in both Offices compares.

Responsibility: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable: During the year 2004-2005



**b. Community Development Block Grant (CDBG) (CFDA 14.218)**

**1) Condition 04-02: Federal Cash Transaction Report is Inaccurate (Prior Report Finding Number SA-03-03) (First Reported 1992)**

The Municipality's system of internal control relating to the preparation of Federal Transactions Cash Reports is not effective. The Municipality is not ensuring that the SF-272 Federal Cash Transaction Report submitted to the federal grantor contains accurate financial information.

Differences are being investigated and have already been partially adjusted. Follow up meetings are going to be held with the Municipality Finance and Budget Director and her staff to

corroborate and ensure that the adjustments or modifications to the reconciliation process are accurate and complete and that the amounts shown in our reports are consistent with the amounts contained in the Municipality books.

Responsibility: Mr. Ricardo Miranda, Program Director  
Mr. Osvaldo Maldonado, Accountant IV  
Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable : Fiscal year 2004-2005

2) **Condition 04-03: Inadequate Cash Management Procedures (Prior Report Finding Number SA-03-04) (First Reported 1994)**

**The Municipality's internal control over compliance with the cash management requirements of the federal Program is not effective since it is not minimizing the time elapsed between the receipt and final disbursement of funds.**

Past corrective actions have significantly improved the Program's cash forecasting procedures and minimized the occurrence of events of no-compliance regarding the applicable cash management requirements. Such actions include assigning a staff of the Program to assist the Finance and Budget Department of the Municipality to accelerate the disbursement process and monitor the requests of funds which are not made until the Municipality has completed the required approval procedures of the disbursements and is ready to issue the checks. Most of the exceptions noted by the auditors relate to disbursements made two or three additional days to the three-day requirement. Improvements have been made to reduce the time elapsing between the receipt of funds and the disbursement of those funds.

Responsibility: Mr. Ricardo Miranda, Program Director  
Mr. Osvaldo Maldonado, Accountant IV  
Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable : Continuously

c. **Section 8 Housing Choice Voucher (CFDA 14.871)**

1) **Condition SA-04-04: Inadequate Cash Management Procedures (Prior Report Finding Number SA-03-07) (First Reported 1987)**

**The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is holding excessive cash balances in its bank accounts. During our audit of the bank reconciliations of the Program cash accounts, we noted that the average balance on hand significantly exceeded the average cash need of the Program.**

The 24 CFR Section 85.20(b)(7), included as a criteria to support this finding does not apply to the Section 8 Housing Choice Voucher Program. The Section 8 Program will implement cash

management procedures in accordance with 24 CFR Subpart .982.156, 157, 158; Part 5, Subpart H, Part 44; HUD Handbook 7220.10G Chapter 20 of the Housing Voucher Program Guide Book.

Responsibility: Mr. Ricardo Miranda, Program Director  
Mrs. Lizette Caballero, Director of Section 8 Program  
Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable : Fiscal year 2004-2005

2) **Condition SA-04-05: Amounts Due from General Fund (Prior Report Finding Number SA-03-08) (First Reported 1992)**

The Municipality has not reimbursed the federal program for the federal funds used to finance the general fund's activities. As of June 30, 2004, a balance of \$1,006,523 remained outstanding for funds that were transferred to the Municipality's general fund in prior years.

Upon further investigation the Municipality have determine that the General Fund does not have a debt of \$1,006,523 to Section 8. The Program is working with the financial consultants to find out and submit to the Office of Public Housing Director the requested evidence.

Responsibility: Mr. Ricardo Miranda, Program Director  
Mrs. Lizette Caballero, Director of Section 8 Program  
Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Timetable : Fiscal year 2004-2005

3) **Condition SA-04-6: Inadequate Documentation of Participant Files Procedures (Prior Report Finding Number SA-02-10) (First Reported 1986)**

A. **Exception a – The units pass the HQS and the Inspection form indicated that the unit does not have smoke detector.**

<b>Contract Number</b>	<b>Response and/or Corrective Action</b>
1011-V	False. Smoke Detector was registered on the Section 2. Kitchen of the Inspection form.
0244-2V	Inspector failed to register the presence of the smoke detector even though it was present. Smoke detector was verified and corrected.
548-2V	Inspector failed to register the presence of the smoke detector even though it was present. Smoke detector was verified and corrected.

Contract Number	Response and/or Corrective Action
1372-V	Inspector failed to register the presence of the smoke detector even though it was present. Smoke detector was verified and corrected.
014-V	Inspector failed to register the presence of the smoke detector even though it was present. Smoke detector was verified and corrected.
746-2V	Inspector failed to register the presence of the smoke detector even though it was present. Smoke detector was verified and corrected.
827-2V	The inspection form was completed and corrected.

**B. Exception b – Lack of the reasonable rent analysis.**

Contract Number	Corrective Action
1372-V	The Rent Analysis Form was completed.

**C. Exception c – The inspection report (Form HUD-52580-A) was incomplete.**

Contract Number	Corrective Action
1357-V	The inspection form was completed and corrected.
1445-V	This situation occurs due to typographical error. However, the form was corrected.
827-V	The inspection form was corrected.
924-2V	The inspection form was corrected.

**D. Exception d – Lack of evidence that the person is a full-time student for 2003-04 year.**

Contract Number	Corrective Action
703-V	Corrective action still in progress, the participant has been contacted and directed to bring this evidence. The personnel of the Program send her two appointment letters.

**E. Exception e – The tenants rent payment does not agreed.**

Contract Number	Corrective Action
1496-V	Tenant's income was corrected.

**F. Exception f – The Private Act Notice Form was not signed.**

<b>Contract Number</b>	<b>Corrective Action</b>
029-D	The Authorization for the Release of Information / Privacy Act Notice was signed.
099-D	The Authorization for the Release of Information / Privacy Act Notice was signed.

In order to improve the internal controls of compliance with the documentation of participant files, the Program Supervisor is implementing a two-prong approach quality control checks:

1. Prior to Contract Registration – This step consist of the implementation of a mandatory checklist to be used by the Housing Investigator to certify that they have complied with the required steps, to include the required certifications. The supervisor will require the checklist completely fill and sign prior to accepting a HAP contract for processing (registering). The supervisor will perform a random spot-check of the tenant's file as the investigator turn in the required checklist.
2. Post Contract Registration – A quality control program will be implemented to verify the tenant's file. The verification will be based on the SEMAP indicators, Income and Allowances verification. A supervisor will randomly select at least 10 tenant's file each month. Any finding found will be discussed with the investigator to figure out the reason for the finding. The Supervisor will provide training if the need is detected, other corrective actions will be implementing as the situation warrants.



Responsibility: Mr. Ricardo Miranda, Program Director  
Mrs. Lizette Caballero, Supervisor (Section 8 Program)

Timetable : Fiscal year 2004-2005, continuously

**d. Administration for Children, Youth and Families (Head Start) (CFDA 93.600)**

**1) Condition SA-04-07: Failure to Meet Full Enrollment Level (Prior Report Finding Number SA-03-12) (First Reported 1986)**

The Municipality served 1,712 children (1640 for Head Start and 72 for Early Head Start), not complying with an enrollment approved by the Federal Program (45 CFR 1305.7(b) of 1,752: 1,680 for Head Start and 72 for Early Head Start) for a difference of 40 children.

The Program had been doing improvements in the "El Tuque" Centers IV, V, VI, VII and VIII to comply with this federal regulation of full enrollment. Nevertheless, the Program did not disburse the total budget in the program year 2004, and the unobligated balance was reprogramming for the next program year. This deficiency should be resolved on June 30, 2005.

Responsibility: Mrs. María de los Ángeles Torres (Program Director)

Timetable : Fiscal year 2004-2005

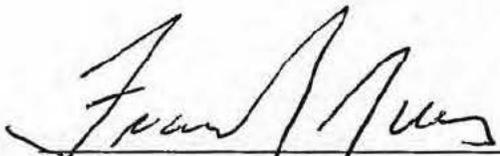
**e. HIV Cluster – HIV Emergency Relief Project Grants (Ryan White) (CFDA 93.914)**

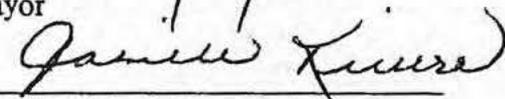
**1) Condition SA-04-8: Lack of Formal Accounting Records to Support Federal Financial Reports (Prior Single Audit Finding Number SA-03-14) (First Reported 1999)**

During March 2005 the Ryan White Program will be implementing a formal set of books and accounts to maintain complete information with regards to the Program assets, liabilities, obligations or unobligated balances, in order to keep a proper accountability.

Responsibility: Mr. Luis A. Cruz, Office Administrator  
Mrs. Lourdes M. Nieves Pérez, Program Accountant  
Mrs. Wanda Rodríguez Feria, Mayor Executive Assistant

Timetable : Fiscal year 2004-2005

  
\_\_\_\_\_  
Hon. Francisco R. Zayas Seijo, VMD  
Mayor

  
\_\_\_\_\_  
Camille Helena Rivera Muñoz  
Finance and Budget Director

**ANSWERS TO SCHEDULE OF STATUS OF PRIOR YEARS AUDIT FINDINGS AND  
QUESTIONED COSTS**

**Condition SA 02-12 HUD Disaster Recovery Initiative (Grant Number B-98MU-72-0003)**

**Condition:** Was not observed

**Comment:**

The Municipality is currently evaluating the properties in question to determine which fall outside the flooding area in order to proceed with the insurance process.

**Condition SA-02-21 Loan Guarantee Assistance (section 108 HUD)**

**Condition:** Condition was not corrected

**Comment:**

Amendment to Section 108 - LGA Loan is going to be submitted for the improvement of the recreational facilities to La Guancha.

**Condition SA-02-22 Noncompliance with Pledge Requirement**

**Condition:** Was not corrected

**Comment:**

Properties to be obligated are already identified and in process of appraisal to determine their value in order to comply with the amount of the guarantee required by the program.

**Condition SA-02-23 Loan Guarantee Failure to Monitor Program-Income Producing  
Activities**

**Condition:** Was not observed.

**Comment:**

The program is already monitoring activities that generate program-income.

Two handwritten signatures in black ink. The first signature is larger and more stylized, while the second is smaller and more compact.



ESTADO LIBRE ASOCIADO DE PUERTO RICO  
GOBIERNO MUNICIPAL AUTÓNOMO DE PONCE  
*Departamento de Finanzas y Presupuesto*  
P. O. BOX 331709  
PONCE, PUERTO RICO 00733-1709

*Camille H. Rivera Muñoz*  
Directora

4 de abril de 2006

VIA FAX 787 759-5001

Lcdo. Angel Castillo  
Comisionado, OCAM  
PO Box 70167  
San Juan, Puerto Rico 00936-8167

Atención: Sr. Raymond Vega  
División Reglamentación e Intervención

**ENVIO DE DATA COLLETION Y EL SINGLE AUDIT REPORT**

Estimado licenciado Castillo:

Se incluye evidencia de envio del Data Collection Form y del Single Audit Report 2004-2005 por la firma de Contadores Públicos Autorizados Reyes, Ramis, Silvagnoli.

La fecha de envio por correo certificado y vía Internet fue el 31 de marzo de 2005.

El próximo jueves se estará entregando a la mano en sus oficinas copia exacta del informe del "Single Audit" 2004-2005.

Atentamente,

Camille Rivera Muñoz  
Directora

mrs

Anejo

*Handwritten notes:*  
Cof 786-1235

*Vertical stamp:*  
COMISIONADO  
REGULACION  
E INTERVENCION  
OCAM



\*\*\*\*\* WELCOME TO \*\*\*\*\*  
 COTTO LAUREL MPO  
 COTO LAUREL, PR 00780-9998  
 03/31/06 02:42PM

Store USPS Trans 47  
 Wkstn sys5002 Cashier T250NO  
 Cashier's Name RICHARD  
 Stock Unit Id SIARICHARD  
 PO Phone Number 787-259-8475  
 USPS # 4284630780

1. Priority Mail 16.15  
 Destination: 47132  
 Weight: 5 lb. 2.30 oz.  
 Postage Type: PVI  
 Total Cost: 16.15  
 Base Rate: 11.90  
 SERVICES  
 Certified Mail 2.40  
 70001670001004126801  
 Rtn Recept (Green Card) 1.85

Subtotal 16.15  
 Total 16.15

Cash 20.00  
 Charge Due  
 Cash 3.85

Number of Items Sold: 1

Thank You  
 Please come again!

U.S. Postal Service  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only; No Insurance Coverage Provided)

7000 1670 0100 0122 6801

<b>OFFICIAL USE</b>		
JEFFERSONVILLE, IN 47132		
Postage	\$ 11.90	UNIT ID: 0780
Certified Fee	2.40	Postmark Here
Return Receipt Fee (Endorsement Required)	1.85	Clerk: T250NO
Restricted Delivery Fee (Endorsement Required)		
Total	16.15	03/31/06
<b>Federal Audit Clearinghouse</b>		
<b>1201 E. 10<sup>th</sup>. Street</b>		
<b>Jefersonville, IN 47132</b>		
Sent To		
Street		
City, St		
PS Form		Instructions

2006 APR -1 PM 2:24

FORM **SF-SAC**  
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Adm.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

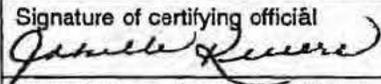
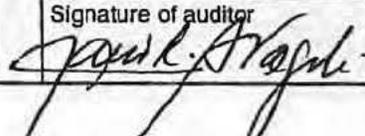
**RETURN  
TO**

**Federal Audit Clearinghouse  
1201 E. 10th Street  
Jeffersonville, IN 47132**

**PART I**

**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)**

<b>1. Fiscal period ending date for this submission</b> <table border="1"> <tr> <td>Month</td> <td>Day</td> <td>Year</td> </tr> <tr> <td align="center">06</td> <td align="center">/ 30</td> <td align="center">/ 2005</td> </tr> </table> Fiscal Period End Dates Must Be In 2004, 2005, or 2006		Month	Day	Year	06	/ 30	/ 2005	<b>2. Type of Circular A-133 audit</b> 1 <input checked="" type="checkbox"/> Single audit    2 <input type="checkbox"/> Program-specific audit						
Month	Day	Year												
06	/ 30	/ 2005												
<b>3. Audit period covered</b> 1 <input checked="" type="checkbox"/> Annual    2 <input type="checkbox"/> Biennial    3 <input type="checkbox"/> Other - <input type="text"/> Months		<b>4. FEDERAL GOVERNMENT USE ONLY</b> Date received by Federal clearinghouse												
<b>5. Auditee Identification Numbers</b>														
<b>a. Primary Employer Identification Number (EIN)</b> <table border="1"> <tr> <td>6</td><td>6</td><td>-</td><td>0</td><td>4</td><td>3</td><td>3</td><td>6</td><td>2</td><td>7</td> </tr> </table>		6	6	-	0	4	3	3	6	2	7	<b>b. Are multiple EINs covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No		
6	6	-	0	4	3	3	6	2	7					
<b>d. Data Universal Numbering System (DUNS) Number</b> <table border="1"> <tr> <td>0</td><td>9</td><td>-</td><td>1</td><td>1</td><td>2</td><td>-</td><td>7</td><td>3</td><td>6</td><td>5</td> </tr> </table>		0	9	-	1	1	2	-	7	3	6	5	<b>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</b>  <b>e. Are multiple DUNS covered in this report?</b> 1 <input type="checkbox"/> Yes    2 <input checked="" type="checkbox"/> No  <b>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</b>	
0	9	-	1	1	2	-	7	3	6	5				

<b>6. AUDITEE INFORMATION</b>		<b>7. AUDITOR INFORMATION (To be completed by auditor)</b>	
<b>a. Auditee name</b> MUNICIPALITY OF PONCE COMMONWEALTH OF PUERTO RICO		<b>a. Auditor name</b> REYES-RAMIS, SILVAGNOLI & CO PSC	
<b>b. Auditee address (Number and street)</b> P.O. BOX 331709 City PONCE State                      ZIP + 4 Code PR                              0 0 7 3 3 - 1 7 0 9		<b>b. Auditor address (Number and street)</b> P.O. BOX 801206 402 SUITE SAN CRISTOBAL TOWER City PONCE State                      ZIP + 4 Code PR                              0 0 7 8 0 - 1 1 0 6	
<b>c. Auditee contact</b> Name MRS. CAMILLE RIVERA MUÑOZ Title FINANCE & BUDGET DIRECTOR		<b>c. Auditor contact</b> Name MARIO R. SILVAGNOLI GUZMAN, CPA Title SENIOR PARTNER	
<b>d. Auditee contact telephone</b> ( 787 ) 284 - 4141		<b>d. Auditor contact telephone</b> ( 787 ) 843 - 5500	
<b>e. Auditee contact FAX</b> ( 787 ) 843 - 8650		<b>e. Auditor contact FAX</b> ( 787 ) 840 - 5470	
<b>f. Auditee contact E-mail</b>		<b>f. Auditor contact E-mail</b> MRS@RRSCOPSC.COM	
<b>g. AUDITEE CERTIFICATION STATEMENT</b> - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in Parts I, II, and III of this data collection form is accurate and complete. I declare that the foregoing is true and correct.		<b>9. AUDITOR STATEMENT</b> - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is not a substitute for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in Parts II and III of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.	
Signature of certifying official  Date Month    Day    Year 3    31    06		Signature of auditor  Date Month    Day    Year 3    31    06	
Printed Name of certifying official CAMILLE RIVERA		Printed Title of certifying official FINANCE AND BUDGET DIRECTOR	

**PART II FINANCIAL STATEMENTS (To be completed by auditor)**

1. Type of audit report

Mark either: 1  Unqualified opinion **OR**  
any combination of: 2  Qualified opinion 3  Adverse opinion 4  Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1  Yes 2  No

3. Is a reportable condition disclosed? 1  Yes 2  No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1  Yes 2  No

5. Is a material noncompliance disclosed? 1  Yes 2  No

**PART III FEDERAL PROGRAMS (To be completed by auditor)**

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1  Yes 2  No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))

3. Did the auditee qualify as a low-risk auditee? (§ .530) 1  Yes 2  No

4. Is a reportable condition disclosed for any major program? (§ .510(a)(1)) 1  Yes 2  No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ .510(a)(1)) 1  Yes 2  No

6. Are any known questioned costs reported? (§ .510(a)(3) or (4)) 1  Yes 2  No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b)) 1  Yes 2  No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- |  |  |   |  |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development      | 83 <input type="checkbox"/> Federal Emergency Management Agency      | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration   |
| 10 <input type="checkbox"/> Agriculture                                    | 39 <input type="checkbox"/> General Services Administration          | 89 <input type="checkbox"/> National Archives and Records Administration  | 19 <input type="checkbox"/> U.S. Department of State         |
| 23 <input type="checkbox"/> Appalachian Regional Commission                | 93 <input checked="" type="checkbox"/> Health and Human Services     | 05 <input type="checkbox"/> National Endowment for the Arts               | 20 <input type="checkbox"/> Transportation                   |
| 11 <input type="checkbox"/> Commerce                                       | 97 <input type="checkbox"/> Homeland Security                        | 06 <input type="checkbox"/> National Endowment for the Humanities         | 21 <input type="checkbox"/> Treasury                         |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 47 <input type="checkbox"/> National Science Foundation                   | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense  | 03 <input type="checkbox"/> Institute of Museum and Library Services | 07 <input type="checkbox"/> Office of National Drug Control Policy        | 64 <input type="checkbox"/> Veterans Affairs                 |
| 84 <input type="checkbox"/> Education                                      | 15 <input type="checkbox"/> Interior                                 | 59 <input type="checkbox"/> Small Business Administration                 | 00 <input type="checkbox"/> None                             |
| 81 <input type="checkbox"/> Energy   | 16 <input type="checkbox"/> Justice                                  |   | <input type="checkbox"/> Other - Specify:                    |
| 66 <input type="checkbox"/> Environmental Protection Agency                | 17 <input type="checkbox"/> Labor                                    |   | <input type="text"/>   |
|  | 09 <input type="checkbox"/> Legal Services Corporation               |   | <input type="text"/>   |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives . . . . .
- and, if not marked above, the Federal cognizant agency . . . . .

Count total number of boxes marked above and submit this number of reporting packages . . . .

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
9	3 .600	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEAD START	\$ 11,467,517 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	BCEGILN	2005-01(FA) TO 2005-07(FA)
9	3 .914	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HIV EMERGENCY RELIEF PROJECT GRANTS	\$ 3,549,852 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	CGIL	2005-08 (FA) TO 2005-11 (FA)
1	4 .871	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8- HOUSING CHOICE VOUCHER	\$ 7,835,220 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	BEHLN	2005-13 (FA) TO 2005-18 (FA)
1	4 .218	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMUNITY DEVELOPMENT BLOCK GRANT / ENTITLEMENT	\$ 4,856,865 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	M	2005-12 (FA)
1	4 .231	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EMERGENCY SHELTER GRANT PROGRAM	\$ 214,473 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4 .239	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME INVESTMENT PARTNERSHIP PROGRAM	\$ 332,337 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	7 .258	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ADULT PROGRAM WIA	\$ 1,730,043 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	7 .259	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	YOUTH ACTIVITIES-WIA	\$ 1,282,025 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	7 .260	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DISLOCATED WORKERS-WIA	\$ 814,807 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	0 .558	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD AND ADULT CARE FOOD PROGRAM	\$ 685,457 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				<b>\$ 33,873,532 .00</b>	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of Instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- |                                    |  |  |                                 |
|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility                             | I. Procurement and suspension and debarment            | L. Reporting                    |
| B. Allowable costs/cost principles | F. Equipment and real property management  | J. Program income                                      | M. Subrecipient monitoring      |
| C. Cash management                 | G. Matching, level of effort, earmarking   | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act               | H. Period of availability of Federal funds |  | O. None                         |
| <sup>5</sup> N/A for NONE          |  |  |                                 |
| P. Other                           |  |  |                                 |

FORM SF-SAC (5-2004)

**PART III FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report <sup>3</sup> (h)		
1 6	.592	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LOCAL LAW ENFORCEMENT BLOCK GRANT	\$ 264,600 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 7	.067	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HOME LAND SECURITY GRANT PROGRAM	\$ 102,869 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 7	.2000-LB-PMB	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SUPPLEMENTAL IMPLEMENTATION GRANT	\$ 13,850 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 4	.856	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SECTION 8- MODERATE REHABILITATION I, II	\$ 723,617 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
<b>TOTAL FEDERAL AWARDS EXPENDED</b> →				<b>\$ 33,873,532 .00</b>	<i>IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS</i>				

<sup>1</sup> See Appendix 1 of Instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

- |                                    |  |  |                                 |
|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility                             | I. Procurement and suspension and debarment            | L. Reporting                    |
| B. Allowable costs/cost principles | F. Equipment and real property management  | J. Program income                                      | M. Subrecipient monitoring      |
| C. Cash management                 | G. Matching, level of effort, earmarking   | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act               | H. Period of availability of Federal funds |  | O. None                         |
| <sup>5</sup> N/A for NONE          |  |  | P. Other                        |

**PART I**

**Item 5 Continuation Sheet**

c. List the multiple Employer Identification Numbers (EINs) covered in this report.												f. List the multiple DUNS covered in the report.																
1	N	/	A				21	-				41	-				1	N	/	A				21	-			
2							22	-				42	-				2							22	-			
3							23	-				43	-				3							23	-			
4							24	-				44	-				4							24	-			
5							25	-				45	-				5							25	-			
6							26	-				46	-				6							26	-			
7							27	-				47	-				7							27	-			
8							28	-				48	-				8							28	-			
9							29	-				49	-				9							29	-			
10							30	-				50	-				10							30	-			
11							31	-				51	-				11							31	-			
12							32	-				52	-				12							32	-			
13							33	-				53	-				13							33	-			
14							34	-				54	-				14							34	-			
15							35	-				55	-				15							35	-			
16							36	-				56	-				16							36	-			
17							37	-				57	-				17							37	-			
18							38	-				58	-				18							38	-			
19							39	-				59	-				19							39	-			
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