

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE PONCE
AUDITORIA 2004-2005

30 DE JUNIO DE 2005

OFICINA DE REGISTRO
MUNICIPALIDAD DE PONCE

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Conf. No. 6.1640

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND INDEPENDENT AUDITORS' REPORT
OMB CIRCULAR A-133 AUDIT**

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce**, ("the Municipality"), as of and for the year ended June 30, 2005, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D. ("Patronato"), which is shown as discretely, presented component units. Those financial statements were audited by other auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Patronato, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditor provide a reasonable basis for our opinions.

Management has not adopted the GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", in the other governmental funds. Accounting principles generally accepted in the United States required that nonexchange transactions be evaluated in accordance with the provisions of this Statement. The amount by which this departure would affect assets, liabilities and fund balance of the other funds is not reasonably determined.

In our opinion, except for the effects of not adopting the GASB Statement No. 33 for the other governmental funds, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the other governmental funds of the **Municipality of Ponce** as of June 30, 2005 and the respective change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce** as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 (reporting entity on pages 27 and 28), certain changes and restatements were made to the reporting entity as presented in the accompanying basic financial statements.

The Management's Discussion and Analysis on pages 5 through 15 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 21, 2005

A handwritten signature in blue ink, reading "Reyes-Ramirez & Asociados, C.A." with a stylized flourish at the end.

License number 6
Ponce, Puerto Rico

Stamp number 2100472 was
affixed to the original report.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the **Municipality of Ponce**, (“the **Municipality**”), financial performance provides an overview of the **Municipality’s** financial activities for the fiscal year ended June 30, 2005

FINANCIAL HIGHLIGHTS

- **The Municipality’s** capital assets increase as a result of this year’s operations. Capital assets as of June 30, 2005 are \$192.6 millions, as compared to \$179.5 millions for the year ended June 30, 2004.
- During the year, **the Municipality** had revenues of \$120.2 millions in the General Fund of total revenues of \$168.4 millions.
- The investment in capital assets, net of related debt, for this year is \$58.49 millions.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15 through 17) provide information about the activities of the **Municipality’s** finances. Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the **Municipalities’** operations in more detail than the government-wide statements by providing information about the **Municipality’s** most significant funds.

Reporting the Municipality as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of activities report information about the **Municipality** as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the **Municipality’s** net assets and changes in them. You can analyze of the **Municipality’s** net assets, as the difference between assets and liabilities, as one way to measure the **Municipality’s** financial health, or financial position. Over time, *increases or decreases* in the **Municipality’s** net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the **Municipality’s** property tax base and the condition of the roads, to assess the *overall health* of the **Municipality of Ponce**.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

In the Statement of Net Assets and the Statement of Activities, we divide **the Municipality** into two kinds of activities:

- **Governmental activities** - Most of **the Municipality's** basic services are reported here, including the public safety, public works, culture and recreation, urban development and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.
- **Component units** - **The Municipality** includes from separate legal entities in its report, the Port of Ponce (POP), Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C.D., (CODEPCOVI), Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato Castillo Serrallés") and Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (CODEZOL). Although legally separate, these "components units" are important for **the Municipality** because are financially accountable for them and your significant importance for us.

Reporting the Municipality's Most Significant Funds

Fund Financial Statements

Our analysis of **the Municipality's** major funds begins on page 19. The fund financial statements begin on page 15 and provide detailed information about the most significant funds, not **the Municipality** as a whole.

The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of **the Municipality's** general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance **the Municipality's** programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on pages 15 and 20 of this report.

THE MUNICIPALITY AS A WHOLE

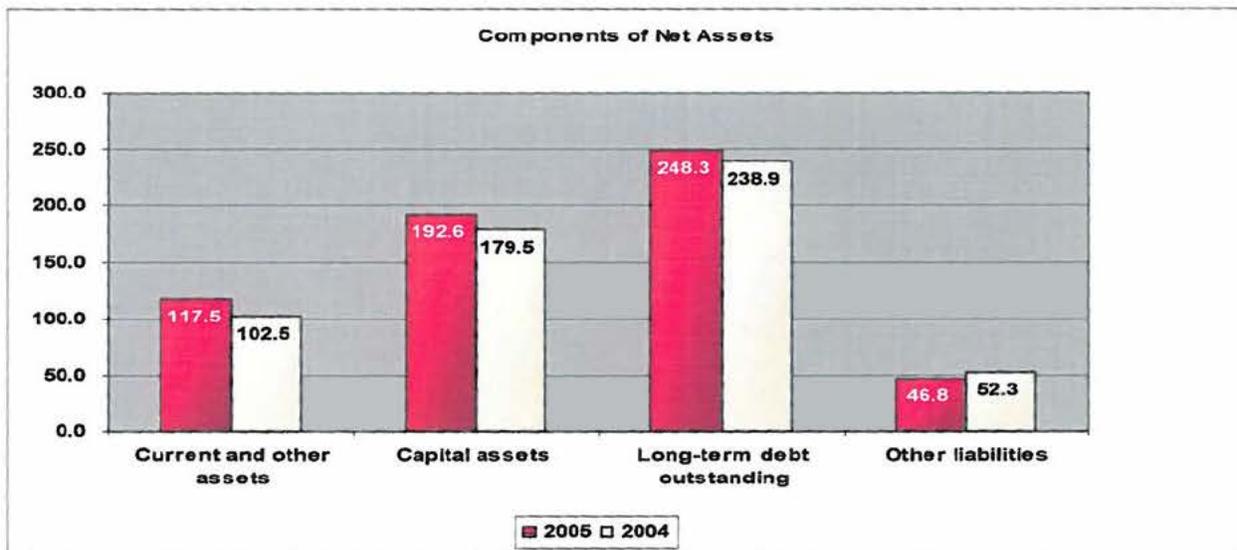
The Municipality's net assets increase from a year ago, from \$(9.71) millions to \$15.12 millions. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 3) of **the Municipality's** governmental and component unit's activities.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

TABLE 1
NET ASSETS
(In Millions)

	Governmental Activities	
	2005	2004
Current and other assets	\$ 117.51	\$ 102.54
Capital assets	192.64	179.49
Total assets	310.15	282.04
Long-term debt outstanding	(248.27)	(238.91)
Other liabilities	(46.76)	(52.31)
Total liabilities	(295.03)	(291.22)
Net assets:		
Invested in capital assets, net of related debt	58.49	29.49
Restricted for:		
Debt services	10.29	9.95
Capital projects	64.70	63.28
Federal programs	10.32	-
Special purposes	4.75	-
Unrestricted	(133.43)	(112.43)
Net assets	\$ 15.12	\$ (9.71)



Net assets of the Municipality's governmental activities increased by \$24.83 millions compared to minus \$(9.71) millions). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, changed from approximately \$(112.43) millions at June 30, 2004 to a \$(133.43) millions at June 30, 2005.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Governmental Activities

Revenues for the Municipality's governmental activities increased by \$22.9 millions while total expenses decrease by \$6.14 millions. The Municipality of Ponce took the following major actions this year to improve the financial position:

- The Mayor of the Municipality of Ponce made various committees to supervise the operations of all department of the Municipality. The components of that committee were meeting at least one time per month. In those meetings the Mayor received different reports like a cash-flow, budget vs. actual, aging of account payable and a management report with an explanations of the movement of each account and the status of the account payable and expenses. The financial decisions of the Mayor were supported by those reports.
- In the budget regarding the administration, the Municipality received the estimated of expenses by each department, and the Finance and Budget Director and the Mayor performed the evaluation to those expenses and determine the needed of each one, looking for the reduction of those unnecessary expenses without affecting the daily operations.

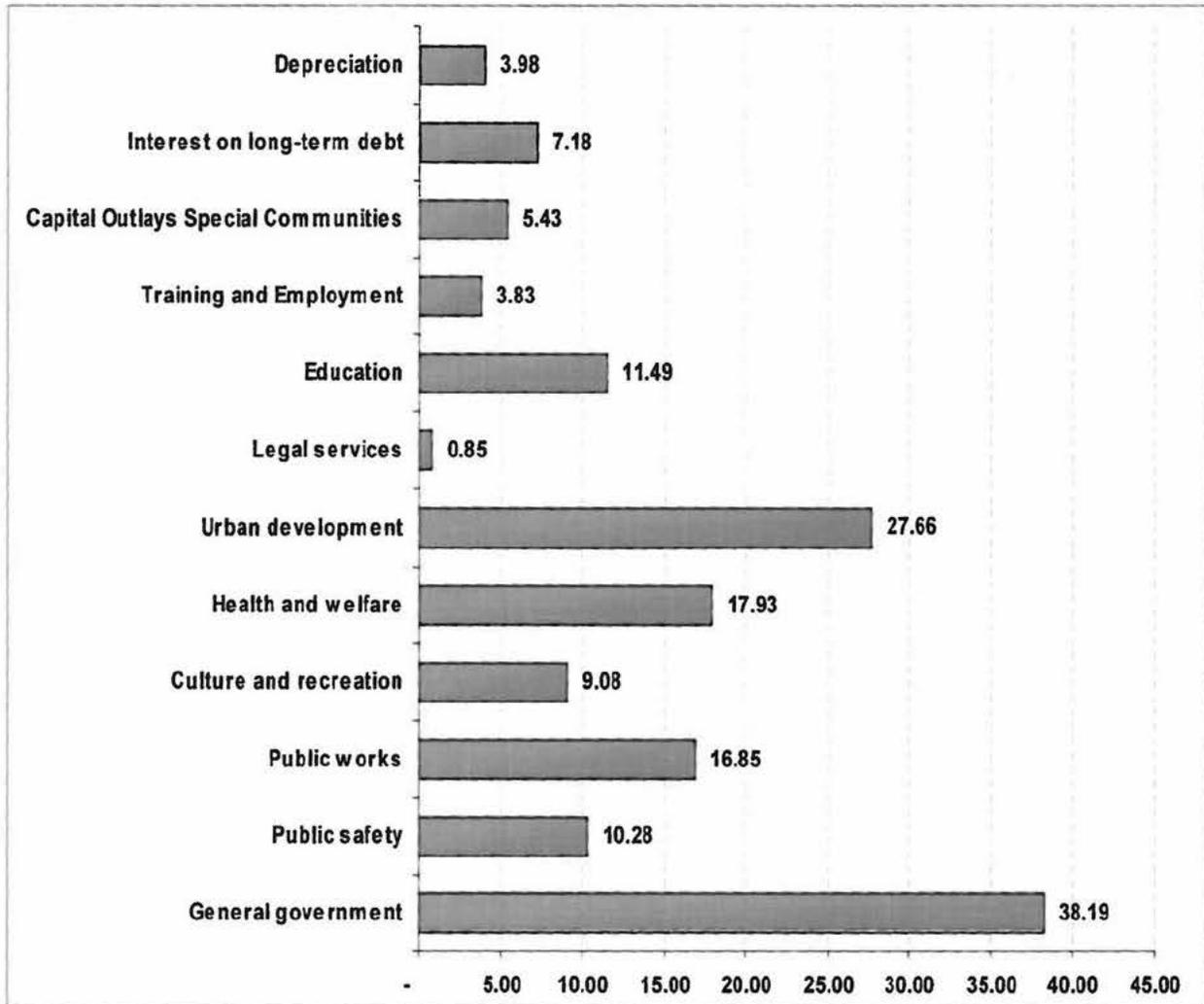
Expenses during the fiscal year ended June 30, 2005 was substantially related to the following:

**TABLE 2
GOVERNMENTAL ACTIVITIES
(In Millions)**

	Total Expenses	
	2005	2004
General government	\$ 38.18	\$ 45.96
Public safety	10.28	10.37
Public work	16.85	18.72
Culture and recreation	9.08	9.05
Health and welfare	17.93	28.84
Urban development	27.66	23.22
Legal service	.85	.96
Education	11.49	7.83
Training and employment	3.83	-
Capital outlays special communities	5.43	-
Interest on long-term debt	7.18	4.66
Depreciation	3.98	9.28
Totals	\$ 152.7	\$ 158.9

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**



The cost of all governmental activities this year was \$152.76 millions compared to \$158.90 millions last year. Table 2 presents the cost of each of the Municipality of Ponce's largest programs.

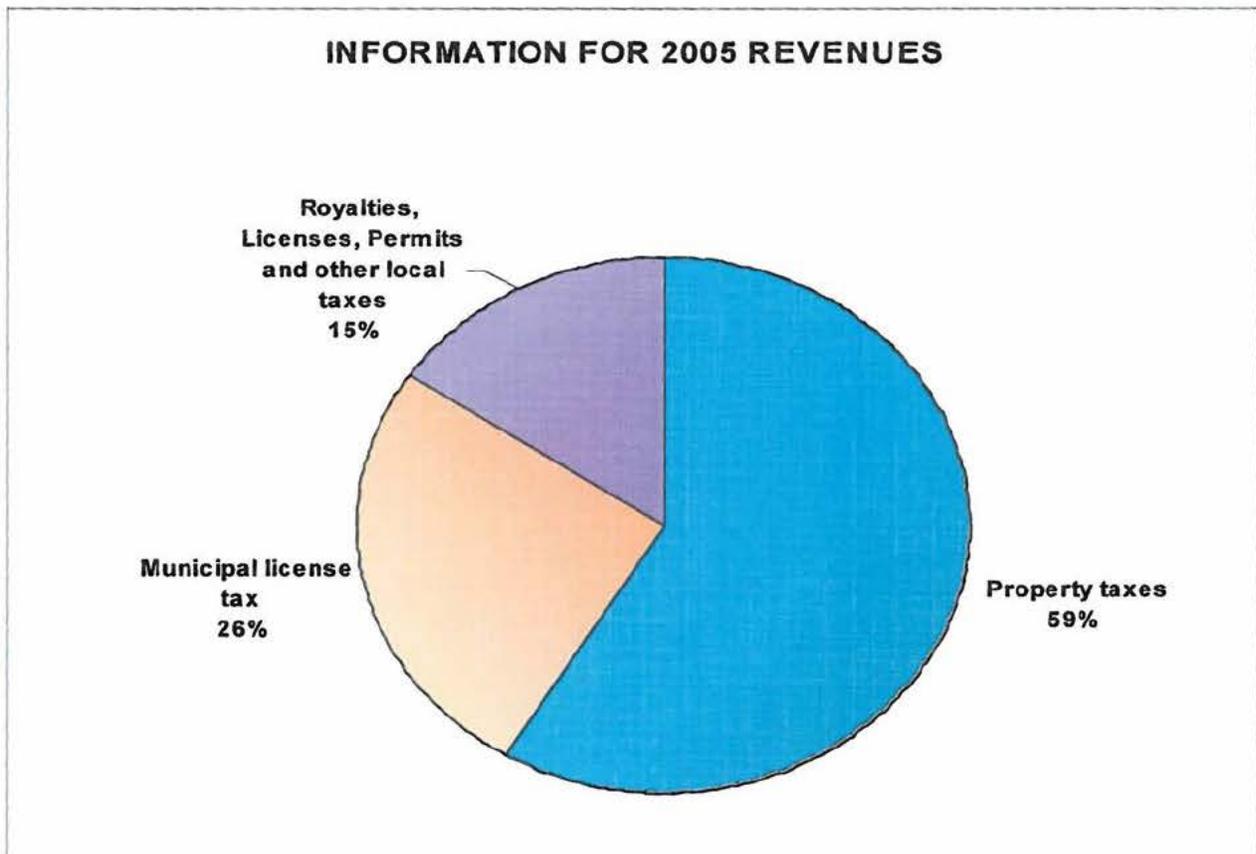
The major governmental revenue sources are property taxes, municipal license taxes, royalties, licenses and permits that in total represent \$69.97 millions and \$68.93 in 2004. Changes in revenues of these sources of revenues were increase of \$1.04 millions. In the program revenues, the increase was by the collections of joint resolutions received by \$8.37 millions, and federal and local grants by \$20.76 millions in comparison with resources provided in fiscal year 2003-04.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2005

TABLE 3
GOVERNMENTAL ACTIVITIES
 (In Millions)

	<u>General Revenues by Major Sources</u>	
	2005	2004
Property taxes	\$ 41.05	\$ 41.02
Municipal license taxes	18.07	17.71
Royalties, licenses, permits and other local taxes	<u>10.85</u>	<u>10.20</u>
Totals	<u>\$ 69.97</u>	<u>\$ 68.93</u>

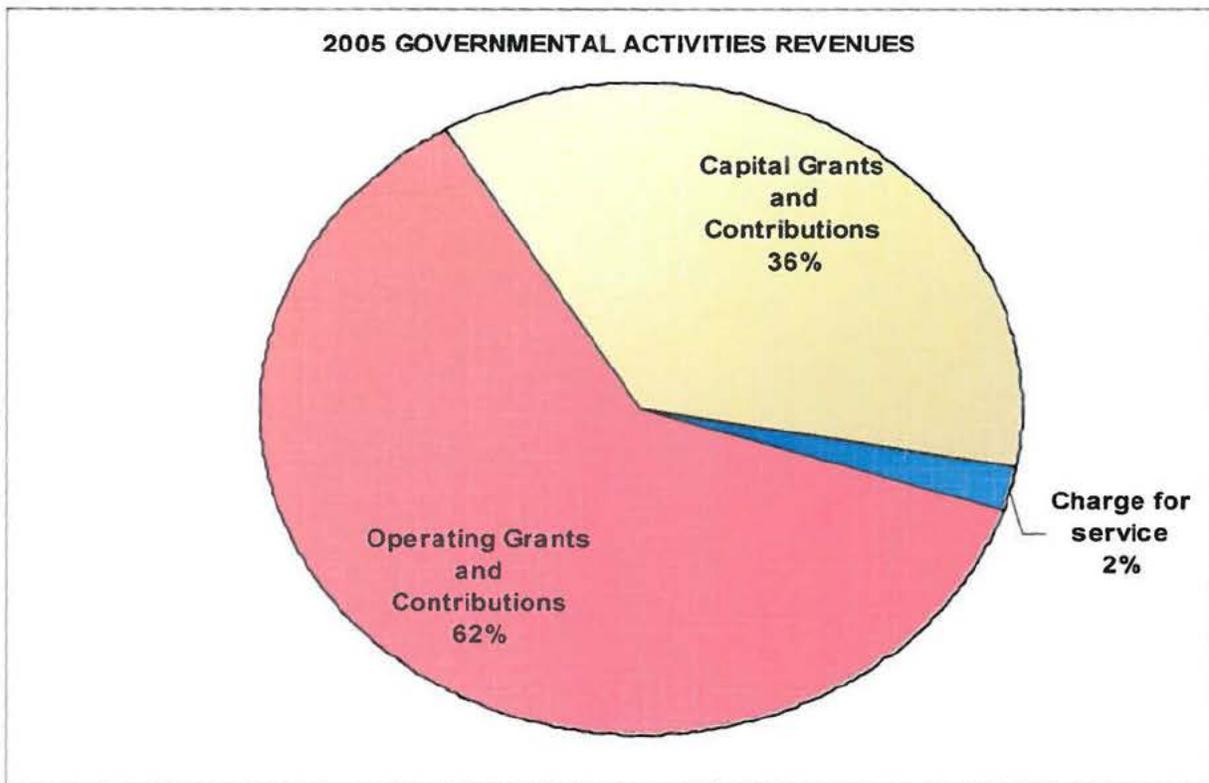


COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED JUNE 30, 2005

TABLE 4
GOVERNMENTAL ACTIVITIES
 (In Millions)

	Program Revenues by Major Sources	
	2005	2004
Charges for service	\$ 2.09	\$ 8.76
Operating grants and contributions	59.08	38.32
Capital grants and contributions	<u>35.12</u>	<u>26.75</u>
Totals	<u>\$ 96.29</u>	<u>\$ 73.83</u>



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

THE MUNICIPALITY'S FUND

As the Municipality completed the year, its governmental funds (as presented in the balance sheet on pages 18 - 19) reported a total fund balance of \$69.9 millions, which is higher than last year total of \$46.1 millions.

In addition, these other changes in fund balance should be noted:

- The Municipality experienced an increase in the collection of Operating Grants and Contributions. This grant represents 62% of the total Program Revenues by major sources. The Municipality received more than \$20 millions in Legislatives Resolutions for construction infrastructures and other uses.
- This year the Municipality increases the property tax due to the effort of a team of the Municipal Property Tax Office.
- The Central Government paid over \$9 millions in Legal Claims, (Ponce en Marcha), Energía Eléctrica and other.
- The new contract with BFI increases the portion of Royalties and other local taxes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

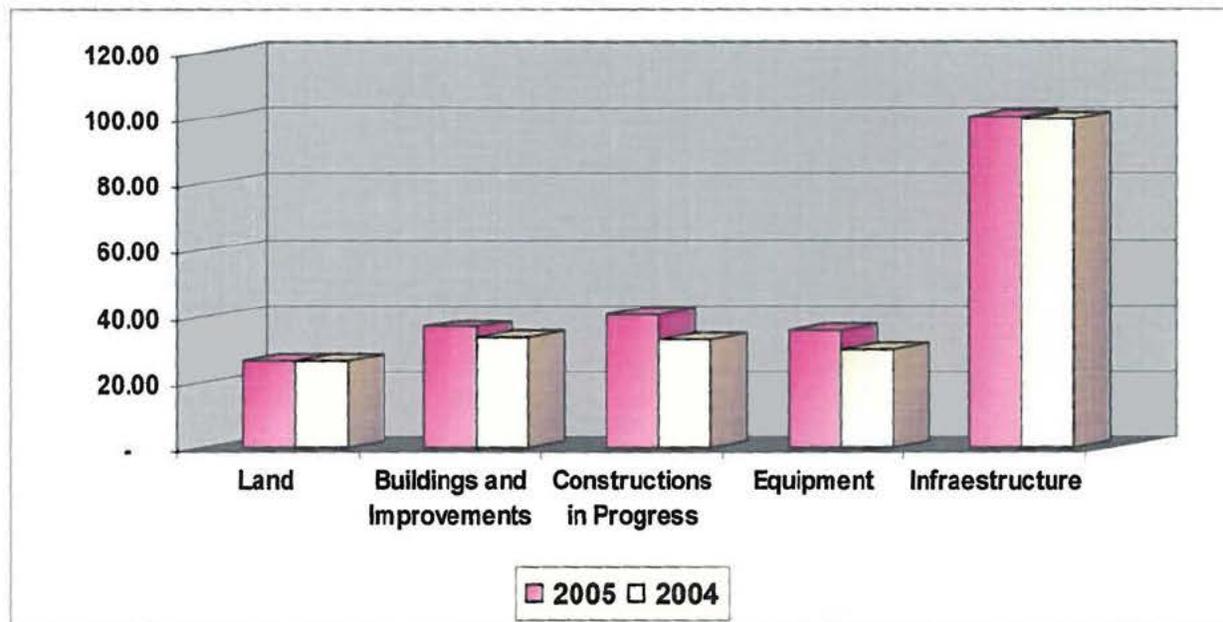
As of June 30, 2005, the Municipality of Ponce had \$241.00 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment. (See Table 5). This amount represents a net increase (including additions and deductions) of just over under \$16.9 millions. In this table you see few change in amount compared to last year due to reclassification of real property to proper division.

**TABLE 5
CAPITAL ASSETS AT YEAR END
(At cost in Thousands)**

	<u>Governmental Activities</u>	
	2005	2004
Land	\$ 26.73	\$ 26.73
Buildings and improvements	36.89	33.97
Construction in progress	40.57	33.21
Equipment	36.00	29.91
Infrastructure	<u>100.80</u>	<u>100.28</u>
Totals	<u>\$ 241.00</u>	<u>\$ 224.10</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005



The Construction in Progress and Equipment acquisitions was increase. **The Municipality** finances this project with more than \$16 millions from \$20 millions refinancing debt bond. More detailed information about the **Municipality's** capital assets is presented in Note 10 to the financial statements.

Debt

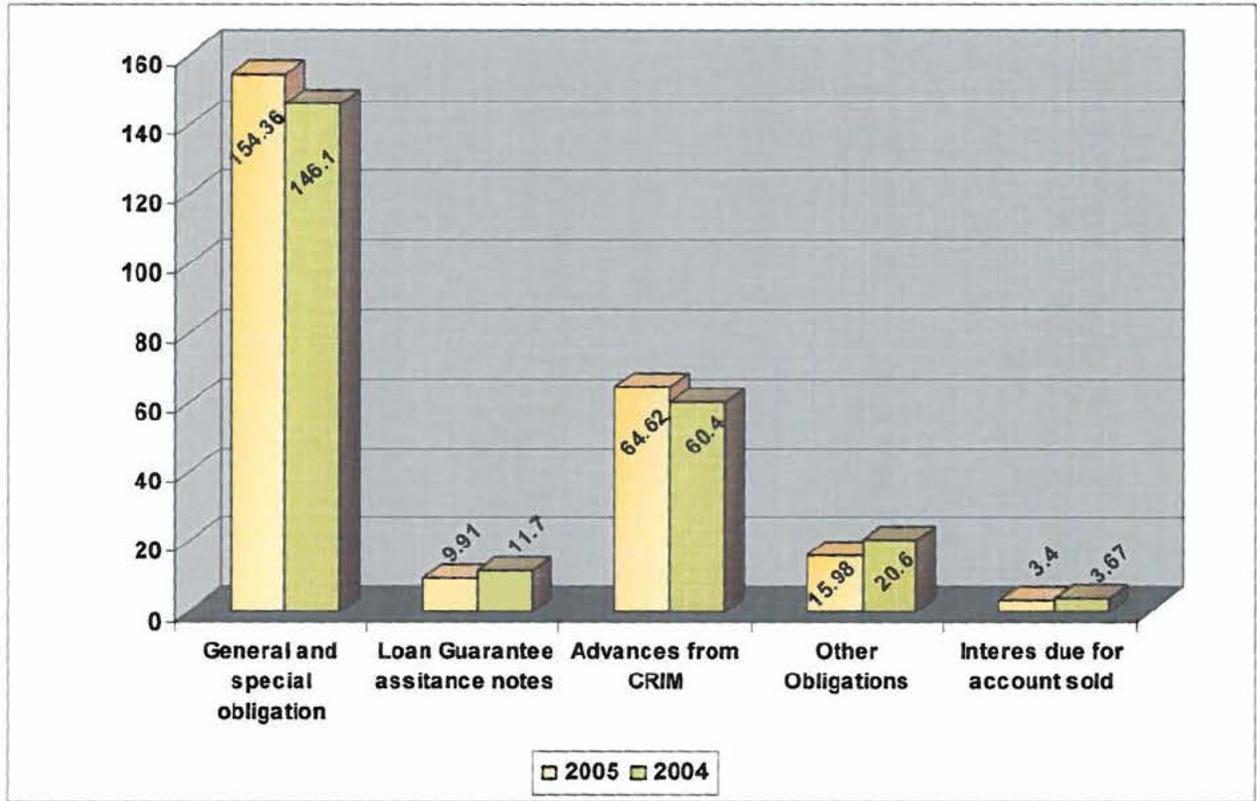
At year-end, **the Municipality** had \$248.27 millions in bonds and notes outstanding versus \$242.47 millions last year, an increase of \$5.8 millions, as shown in Table 6.

TABLE 6
OUTSTANDING DEBT, AT YEAR-END
(In Thousands)

	<u>Governmental Activities</u>	
	2005	2004
General and special obligation	\$ 154.36	\$ 146.10
Loan guarantee assistance notes	9.91	11.70
Advances from CRIM	64.62	60.40
Other obligations	15.98	20.60
Interest due for account sold	<u>3.40</u>	<u>3.67</u>
Totals	<u>\$ 248.27</u>	<u>\$ 242.47</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**



The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within **the Municipality**, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and claims and judgments. More detailed information about **the Municipality's** long-term liabilities is presented in Note 15 to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2005 budget. Unemployment in the Municipality now stands at 11.6 percent.

Amounts available for appropriations in the General Fund for the fiscal year 2005 are \$95.2 millions, a increase of 4.5 percent under the final 2004 budget of \$91.3 millions. The Original and Final Budget (General Fund) 2004-05 continue during fiscal year 2004-05 in the amount of \$95.2 millions. In overall the consolidated budget for the fiscal year 2005 is \$140.2 millions, an increase of 3.9 percent over the 2004 budget of \$134.9 millions. Construction excise taxes was estimated an increase to \$9.3 millions in 2005 from \$8.7 millions in 2004, due to all scheduled construction of the Ponce en Marcha project and special community, the Municipality's own public investment and the private sector investment. The Municipality will use these increases in revenues to finance programs we currently offer and the effect inflation will have on this programs.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receive. If you have questions about this report, separately issued components unit's financial statements, or need additional financial information, contact us at Municipality of Ponce, PO Box 331709, Ponce, Puerto Rico 00733-1709.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities	Component Units			
		CODEPCOVI	Port of Ponce	CODEZOL	Patronato
Cash (Notes 1 and 4)	\$ 9,244,825	\$ 125,273	\$ 3,352,894	\$ 655,214	\$ 197,971
Accounts receivable, net (Notes 1 and 8):					
Municipal license tax	186,563				
Other	403,884	89,137	202,806	121,401	2,048
Interest receivable	29,577				
Due from local government (Note 9)	2,668,660				
Due from federal government (Note 9)	8,787,288		32,141		
Due from primary government					
Other assets		15,983	100,346	12,763	85,865
Restricted assets:					
Cash and cash equivalents (Notes 1 and 4)	51,950,928			100,000	
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	44,237,710				
Real estate projects under construction (Note 1)		1,880,514			
Capital assets (Notes 1 and 10):					
Non-depreciable	67,301,746				160,408
Depreciable, net of accumulated depreciation	<u>125,342,905</u>	<u>23,165</u>	<u>2,694,925</u>	<u>122,933</u>	<u>262,242</u>
Total assets	<u>310,154,086</u>	<u>2,134,072</u>	<u>6,383,112</u>	<u>1,012,311</u>	<u>708,534</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2005

LIABILITIES AND NET ASSETS	Governmental Activities	Component Units			
		CODEPCOVI	Port of Ponce	CODEZOL	Patronato
LIABILITIES:					
Accounts payable and accrued liabilities (Note 11)	\$ 18,645,943	\$ 1,331,745	\$ 373,983	\$ 33,433	\$ 150,178
Due to primary government		989,825			
Due to other agencies (Note 12)	6,018,440				
Notes payable (Note 15)		999,842			89,240
Deferred revenues (Note 14):					
Municipal license tax	17,239,908				
Federal government	2,594,889				
Accrued interest	2,259,093		5,388		
Noncurrent liabilities (Note 15):					
Due within one year	16,554,215				
Due after one year	<u>231,722,058</u>				
Total liabilities	<u>295,034,546</u>	<u>3,321,412</u>	<u>379,371</u>	<u>33,433</u>	<u>239,418</u>
NET ASSETS:					
Investment in capital assets, net of related debt	58,491,857				
Restricted for:					
Federal grants	10,319,742				
Debt service	10,298,197				
Special purposes	4,754,899				101,806
Capital project	64,699,750	1,118,403		222,933	
Unrestricted (deficit)	<u>(133,444,905)</u>	<u>(2,305,743)</u>	<u>6,003,741</u>	<u>755,945</u>	<u>367,310</u>
Total net assets	<u>\$ 15,119,540</u>	<u>\$ (1,187,340)</u>	<u>\$ 6,003,741</u>	<u>\$ 978,878</u>	<u>\$ 469,116</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets							
		Program Revenues			Primary Governmental Activities	Component Units			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		CODEPCOVI	Port of Ponce	CODEZOL	Patronato
PRIMARY GOVERNMENT									
Governmental activities:									
General government	\$ 38,188,770		\$ 21,914,047		\$ (16,274,723)				
Public safety	10,281,443				(10,281,443)				
Public works	16,850,200	\$ 2,087,928		\$ 35,117,876	20,355,604				
Culture and recreation	9,082,393				(9,082,393)				
Health and welfare	17,929,363		3,549,852		(14,379,511)				
Urban development	27,656,561		17,146,442		(10,510,119)				
Legal services	854,202				(854,202)				
Education	11,492,517		16,471,709		4,979,192				
Training and employment	3,826,875				(3,826,875)				
Capital outlays special communities	5,434,448				(5,434,448)				
Depreciation	3,975,601				(3,975,601)				
Interest	7,183,355				(7,183,355)				
TOTAL	\$ 152,755,728	\$ 2,087,928	\$ 59,082,050	\$ 35,117,876	(56,467,874)				
COMPONENT UNITS									
CODEPCOVI	\$ 4,785,480		\$ 4,752,500		\$ (32,980)				
Port of Ponce	1,316,749	\$ 1,590,564		\$ 69,612		\$ 343,427			
CODEZOL	412,450	630,530					\$ 218,080		
Patronato	1,435,601	457,248	1,019,657					\$ 41,304	
TOTAL	\$ 7,950,280	\$ 2,678,342	\$ 5,772,157	\$ 69,612	(32,980)	\$ 343,427	\$ 218,080	\$ 41,304	
General revenues:									
Property taxes (Note 5)					41,058,194				
Municipal license tax (Note 6)					18,072,479				
Licenses, permits and other local taxes					9,790,240				
Grants and contributions not restricted to specific programs					1,052,925				
Interest					1,410,820	487	46,207		4,392
Other					758,912	5,003	68,187	11,187	35,153
Extraordinary item (Note 18)						514,678			
Total general revenues					72,143,570	520,168	114,394	11,187	39,545
Change in net assets									
Net assets, as previously reported					15,675,696	487,188	457,821	229,267	80,849
Prior period adjustments (Note 22)					(9,705,745)	(1,674,528)	5,545,920	749,611	388,267
Net assets, as restated					9,149,589				
Net assets, as restated					(556,156)	(1,674,528)	5,545,920	749,611	388,267
Net assets, ending					\$ 15,119,540	\$ (1,187,340)	\$ 6,003,741	\$ 978,878	\$ 469,116

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash (Notes 1 and 4)	\$ 9,244,825						\$ 9,244,825
Accounts receivable, net (Notes 1 and 8):							
Municipal license taxes	186,563						186,563
Others	395,455	\$ 8,429					403,884
Interest receivable				\$ 29,577			29,577
Due from local government (Note 9)	464,351			2,204,163		\$ 146	2,668,660
Due from federal government (Note 9)		415,825	\$ 973,718		\$ 7,028,369	369,376	8,787,288
Due from other funds (Note 7)	431,840	1,257,397	6,816		1,830,241		3,526,294
Restricted cash:							
Cash and cash equivalents (Notes 1 and 4)	47,354,656	111,796	85,399		3,618,463	780,614	51,950,928
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	<u>28,564,272</u>			<u>15,588,550</u>		<u>84,888</u>	<u>44,237,710</u>
TOTAL	<u>\$ 86,641,962</u>	<u>\$ 1,793,447</u>	<u>\$ 1,065,933</u>	<u>\$ 17,822,290</u>	<u>\$ 12,477,073</u>	<u>\$ 1,235,024</u>	<u>\$ 121,035,729</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2005

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts payable and accrued liabilities (Note 11)	\$ 11,431,238	\$ 832,524	\$ 288,079		\$ 414,659	\$ 414,446	\$ 13,380,946
Due to other agencies (Note 12)	5,669,596				1,175,010		6,844,606
Due to other funds (Note 7)	2,994,166	27,415			383,070	121,643	3,526,294
General obligations:							
Bonds				\$ 5,265,000			5,265,000
Accrued interest				2,259,093			2,259,093
Deferred revenues (Note 14):							
Municipal license tax	17,239,908						17,239,908
Federal government		518,939			1,377,015	698,935	2,594,889
Total liabilities	<u>37,334,908</u>	<u>1,378,878</u>	<u>288,079</u>	<u>7,524,093</u>	<u>3,349,754</u>	<u>1,235,024</u>	<u>51,110,736</u>
FUND BALANCE:							
Reserved for:							
Encumbrances (Note 2)	10,292,911						10,292,911
Federal grants		414,569	777,854		9,127,319		10,319,742
Debt service				10,298,197			10,298,197
Special purposes	4,636,385						4,636,385
Capital projects	54,725,408						54,725,408
Unreserved fund balance	<u>(20,347,650)</u>						<u>(20,347,650)</u>
Total fund balance	<u>49,307,054</u>	<u>414,569</u>	<u>777,854</u>	<u>10,298,197</u>	<u>9,127,319</u>	<u>-</u>	<u>69,924,993</u>
TOTAL	<u>\$ 86,641,962</u>	<u>\$ 1,793,447</u>	<u>\$ 1,065,933</u>	<u>\$ 17,822,290</u>	<u>\$ 12,477,073</u>	<u>\$ 1,235,024</u>	<u>\$ 121,035,729</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2005**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS **\$ 69,924,993**

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 192,644,651

- Some liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 3) (247,450,104)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 15,119,540**

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
REVENUES							
Property taxes (Note 5)	\$ 31,369,232			\$ 9,688,962			\$ 41,058,194
Municipal license tax (Note 6)	18,072,479						18,072,479
Royalties and others	2,087,928						2,087,928
Licenses, permits and other local taxes	9,790,240						9,790,240
Charges for services and rents	663,168						663,168
Fines and forfeitures	95,744						95,744
Interest	1,170,059			240,762			1,410,821
Intergovernmental revenues (Note 13):							
Federal grants and contributions		\$ 15,431,937	\$ 4,589,623		\$ 17,146,442	\$ 1,052,925	38,220,927
State contributions	44,496,274						44,496,274
Other	12,509,935		176		25,539		12,535,650
Total revenues	<u>120,255,059</u>	<u>15,431,937</u>	<u>4,589,799</u>	<u>9,929,724</u>	<u>17,171,981</u>	<u>1,052,925</u>	<u>168,431,425</u>
EXPENDITURES							
Current:							
General government	39,993,579						39,993,579
Public safety	9,938,974					342,468	10,281,442
Public works	16,850,202						16,850,202
Culture and recreation	9,082,393						9,082,393
Health and welfare	13,694,054	3,549,852				685,457	17,929,363
Urban development					12,117,600		12,117,600
Legal services	854,202						854,202
Education		11,467,517				25,000	11,492,517
Training and employment			3,826,875				3,826,875
Capital outlays special communities	5,434,448						5,434,448
Capital outlays of projects	26,348,109						26,348,109
Debt service:							
Principal	550,000			5,265,000	1,835,000		7,650,000
Interest	2,443,129			4,166,186	574,040		7,183,355
Total expenditures	<u>125,189,090</u>	<u>15,017,369</u>	<u>3,826,875</u>	<u>9,431,186</u>	<u>14,526,640</u>	<u>1,052,925</u>	<u>169,044,085</u>
Excess (deficiency) of revenues over expenditures	<u>(4,934,032)</u>	<u>414,569</u>	<u>762,924</u>	<u>498,538</u>	<u>2,645,340</u>	<u>-</u>	<u>(612,660)</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)							
Proceeds of refunding debt	14,055,000						14,055,000
Proceeds of tax anticipation note	10,037,000						10,037,000
Payment to refunded debt	(10,037,000)						(10,037,000)
Transfers in (out)	<u>352,472</u>		<u>(60,484)</u>	<u>(154,886)</u>	<u>(137,102)</u>		
Total other financing sources (uses)	<u>14,407,472</u>	<u>-</u>	<u>(60,484)</u>	<u>(154,886)</u>	<u>(137,102)</u>	<u>-</u>	<u>14,055,000</u>
Excess of revenues over expenditures and other financing sources	<u>9,473,441</u>	<u>414,569</u>	<u>702,440</u>	<u>343,652</u>	<u>2,508,238</u>		<u>13,442,340</u>
FUND BALANCE, July 1, 2004, As previously reported	36,137,777	-		9,954,545	104,521	-	46,196,843
PRIOR PERIOD ADJUSTMENTS (Note 22)	<u>3,695,837</u>		<u>75,414</u>		<u>6,514,560</u>		<u>10,285,811</u>
FUND BALANCE, July 1, 2004, As restated	<u>39,833,614</u>	<u>-</u>	<u>75,414</u>	<u>9,954,545</u>	<u>6,619,081</u>	<u>-</u>	<u>56,482,654</u>
FUND BALANCE, June 30, 2005	<u>\$ 49,307,055</u>	<u>\$ 414,569</u>	<u>\$ 777,854</u>	<u>\$ 10,298,197</u>	<u>\$ 9,127,319</u>	<u>\$ -</u>	<u>\$ 69,924,993</u>

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See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 13,442,340

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities and change in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 17,447,387
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduce the long-term obligations in the statement of activities. 7,650,000
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (24,092,000)
- Governmental funds report payments of refunded debt as other financing uses because uses current financial resources. 10,037,000
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the source of current financial resources. (3,975,601)
- Some expenses such as compensated absences, claims and judgments, advances and other debts with CRIM, reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (4,833,430)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 15,675,696

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 32,812,220	\$ 32,812,220	\$ 33,210,619	\$ 398,399
Municipal license taxes	17,693,307	17,693,307	18,072,479	379,172
Royalties and other	1,900,000	1,900,000	2,087,928	187,928
Licenses, permits and other local taxes	9,317,539	9,317,539	9,107,170	(210,369)
Charges for services and rents	456,040	456,040	582,086	126,046
Fines and forfeitures	15,000	15,000	95,744	80,744
Interest	679,000	679,000	1,075,729	396,729
Intergovernmental revenues - federal grant and contribution	650,000	650,000	142,272	(507,728)
State contributions	7,924,307	7,924,307	8,261,286	336,979
Other revenues	<u>23,729,930</u>	<u>23,729,930</u>	<u>11,548,083</u>	<u>(12,181,847)</u>
Total revenues	<u>95,177,343</u>	<u>95,177,343</u>	<u>84,183,396</u>	<u>(10,993,947)</u>
EXPENDITURES				
General government	41,741,213	42,088,041	39,866,309	2,221,732
Public safety	11,001,770	10,464,216	10,527,106	(62,890)
Public works	16,236,697	16,436,592	15,604,581	832,011
Culture and recreation	9,604,419	9,621,649	9,059,344	562,305
Health and welfare	13,694,054	13,694,054	13,694,054	
Legal services	1,136,617	1,110,218	800,558	309,660
Debt service:				
Principal	550,000	550,000	550,000	
Interest	<u>1,212,573</u>	<u>1,212,573</u>	<u>1,204,750</u>	<u>7,823</u>
Total expenditures	<u>95,177,343</u>	<u>95,177,343</u>	<u>91,306,702</u>	<u>3,870,641</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,123,306)</u>	<u>\$ (7,123,306)</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 9,052,050	\$ 9,052,050	\$ 9,688,962	\$ 636,912
Interest	-	-	240,762	240,762
Total revenues	9,052,050	9,052,050	9,929,724	877,674
EXPENDITURES				
Debt service:				
Principal	5,340,671	5,340,671	5,265,000	75,671
Interest	3,711,379	3,711,379	4,166,186	(454,807)
Total expenditures	9,052,050	9,052,050	9,431,186	379,136
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 498,538	\$ 498,538

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Ponce, ("the Municipality") was founded in 1692. The Municipality's government system consists of an executive and legislature body. It is governed by a Mayor and sixteen (16) members of the Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community developments, education, and other miscellaneous services.

Summary of significant accounting policies

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34: "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", (GASB No. 34). This statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2001. In addition, to this Statement, GASB Statement No. 37: "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*", and GASB Statement No. 38: "*Certain Financial Statement Note Disclosures*" have been adopted and are reflected in these financial statements.

Reporting entity

These financial statements present the Municipality and its component units. As defined by GASB Statement No. 14, as amended by GASB Statement No. 39, component units are legally separate entities that are included in the Municipality's reporting entity because of the significance of their operating financial relationship with the Municipality by the nature and significance of the relationship between the entity and a primary government.

The accompanying basic financial statements of the Municipality have included the assets, liabilities, net assets, revenue and expenses of CODEZOL and Patronato, which had been excluded in prior year. As a result, the discretely presented component units assets, liabilities and net assets have been restated.

The following discretely presented component units are in the basic financial statements:

- **Port of Ponce ("POP")** was formed as a result of an ordinance, dated November 20, 1911, and enacted by the Executive Council of Puerto Rico, which granted the Municipality authority to construct, maintain and operate a pier, on the shore of the Ponce Harbor. The operations of the port facilities are financed principally through charges to users.
- **Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D. ("CODEPCOVI")** was incorporated on September 23, 1985, as a public nonprofit corporation to promote the economic development of the City of Ponce, originally under the name of Ponce Economic Development Corporation. CODEPCOVI's principal activity consists of granting loans to small businesses. CODEPCOVI's activities are principally financed through contributions from the Municipality using federal assistance and interest charges to borrowers.

- **Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (“CODEZOL”)** was incorporated on September 25, 1997, as special municipal development nonprofit corporation for develop international commerce principally between Europe, Caribbean zone, North, South and Central America through Foreign Trade Zone (License FTZ No. 163). Municipal Legislature authorized the creation of special corporation on Resolution No. 15. (Series 1992-93)
- **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. (“Patronato”)** was incorporated on July 28, 1995, as special nonprofit corporation for conservation, protection and development of a museum on Castillo Serralles and Cruceta El Vigía de Ponce, which are Municipality’s buildings. In February 2002, the Municipality signed a proxy contract with Patronato for custody of these municipal properties for which receive a monthly administration fee for operation of museum. Municipal Legislature authorized the creation of special corporation on Resolution No. 179. (Series 2001-02)

Separate financial statements of the individual component units can be obtained from their respective administrative offices.

Port of Ponce
 Road 10 final
 Playa de Ponce
 Ponce, Puerto Rico 00731

Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D. (CODEPCOVI)
 Condominio Ponciana 3-D
 Marina 16
 Ponce, Puerto Rico 00731

Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (CODEZOL)
 Avenida Santiago de los Caballeros No. 1
 Ponce, Puerto Rico 00731

Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. (Patronato)
 El Vigía Street No. 17
 Ponce, Puerto Rico 00730

Government-wide and fund financial statements

Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported mainly by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

General - This is the operating fund of the **Municipality** and accounts for all financial resources, except those required to be accounted for in another fund.

HUD grant - This fund accounts for revenue sources provided by US Housing Urban Development Department for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

Workforce investment act grant ("WIA") - This fund accounts for revenue sources provided by "Consejo Desarrollo Ocupacional y Recursos Humanos" (pass-through agency of US Department of Labor) to help people access the tools they need to manage their careers through information and high quality services and to help U. S. companies find skilled workers.

Health and human services grant ("HHS") - This fund accounts for revenue sources provided by US Health and Human Services Department to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

Debt service - This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, than unrestricted resources as they are needed.

Cash, cash equivalents, and cash with fiscal agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department ("PRTD") or in instruments of the Government Development Bank for Puerto Rico ("GDB"). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the general fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

Cash and cash equivalents of the component units are maintained in their own names in bank accounts separate from those of the primary government.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Restricted assets

Funds set aside by the governmental funds for payment of notes and bonds and funds required to be held for the payment of services and activities externally restricted.

Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables are resources provided by governmental entities.

Interfund receivables and payables

The Municipality has the following types of transactions among funds:

Operating transfers - Legally required transfers that are reported when incurred as operations transfer-in by the recipient fund and as operating transfer-out by the disbursing fund.

Intra-entity transactions - Transfers between the funds of the primary government are reported as interfund transfer with receivables and payables presented as amounts due to and due from other funds.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally real property and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. In the accompanying statement of net assets, all individual personal capital assets over the threshold amount of \$25 have been capitalized and depreciated. Such amount has been determined by the Basic Standards of the Municipalities of Puerto Rico, which is the guide that regulates the Municipalities.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	Useful Life
Buildings and building improvements	20-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

Works of art and historical treasures

At June 30, 2005, Municipality has the following work of art, historical treasures, and similar assets:

- Centro Ceremonial Indígena de Tibes (Period 1200 AC to 1493 AC) - collections have skeletons, charms, “petroglifos” and ceremonial park of Taino Indian culture.
- Museo Antiguo Parque de Bombas (1882) - collections have pictures, fire equipments, fireman car and embellishing.
- Museo Castillo Serrallés (1930-1934) - collections have puertorrican and international decorative arts, Serrallés’ Family objects, documents and machinery of Mercedita Sugar Plantation.
- Panteón Nacional Ramón Baldorioty de Castro (1847-2005) - collections show funeral arts of Century XIX, sculptures and work of arts about “Ponceños Ilustres”, pictures and documents about Cemetery history and rest of remarkable persons as Ramón Baldorioty de Castro, Salvador de Vives and others.
- Museo de la Historia de Ponce (Collections period 1200 AG to end Century XIX) - collections have documents, pictures, and works of art that show the evolution of City.
- Museo Pancho Coimbre (Beginning Century XX) - collections have memories of baseball player Francisco “Pancho” Coimbre, sport equipment, pictures and gallery of “immortals” of Ponce’s Sport.
- City Hall (Century XVIII to XXI) - collections have Ponces’ Mayors paintings in oil colors, work arts of Miguel Pou, Azaustre, Manuel Sierra and Julio Ojeda, busts of Juan Ponce de León and Eugenio María de Hostos.
- Public Art (1923-2004) - collections have sculptures installed in Public Parks, avenues and public buildings.

These collections constitute culture patrimony of the City acquired by purchase and/or donations. The Municipality take the option not capitalized your work of arts and historical treasures by the patrimony value for future generations, as is permitted by GASB Statement No. 34 on paragraph 27.

Real estate projects under construction

Real estate projects under construction represent the cost of acquisition of real estate and other construction costs incurred by CODEPCOVI for the purpose of developing low-income housing projects for sale to qualifying applicants.

Reservations of fund balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. **The Municipality has the following reservations of fund balance:**

Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Federal grants - Represent the reservations of amounts available for specific use under federal grant programs.

Special purpose - Represent the reservations of amounts available for specific purpose provided by governmental entities and others.

Debt service - Represent net assets available to finance future debt service payments.

Capital project - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("the CRIM") for the year ended June 30, 2005 amounted to approximately \$1.9 millions. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.2 millions for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid on or before of March 31. Excess of vacations can be paid after July 1 of every fiscal year.

Post employment benefits

Pursuant to Act. No. 207 of August 13, 1995, Act No. 40 of June 13, 2001 and Act No. 157 of June 27, 2003, the Municipality is required to cover annually the 3% increase in the retirement plan of its retire employees. For the fiscal year ended June 30, 2005, post employment benefits for 294 retire employees amounted to \$101,638.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications to component units' amounts

Certain reclassifications have been made to the amounts presented in the component units' financial statements to conform them to the presentation used in the Municipality's basic financial statements.

Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following statement that the **Municipality** or its component units have not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2005-06
43	Financial Reporting for Post-Employment Benefit Other than Pension Plans	2006-07
44	Economic Condition Reporting: The Statistical Section	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2007-08
46	Net assets restricted by enabling legislation	2005-06
47	Accounting for termination benefits	2005-06

The impact of these statements on the **Municipality's** financial statements has not yet been determined.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary control

The **Municipality's** annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The **Municipality** prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and actual (Budgetary basis), accordingly, include the operations of the general fund and the payment of general obligations bonds in debt service fund. The amounts approved under other governmental funds were excluded since they are received and expended over a period of time, which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. As of June 30, 2005, this commitment amounted to approximately \$10,293,000.

The annual budget as presented in the accompanying statements of revenues and expenditures - budget and actual for general and debt service funds (Budgetary basis) is the budget ordinance at June 30, 2005 representing the original budget and the amended budget.

Budget /GAAP reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2005 is presented below for the general fund:

	General Fund
Deficiency of expenditures over revenues - budgetary basis	<u>\$ (7,123,306)</u>
Entity differences:	
Non-budgeted revenues	36,071,662
Non-budgeted expenses	(33,186,100)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(902,273)
Current year encumbrances recorded as expenditures for budgetary purposes	<u>205,985</u>
Basis of accounting differences - net change	<u>2,189,274</u>
Deficiency of revenues over expenditures - GAAP basis	<u>\$ (4,934,032)</u>

Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$247 millions differences are as follows:

Reconciliation liabilities recorded in basic financial statements vs. fund financial statements.

General and special obligations	\$ 154,360,000
Property tax advances	61,089,301
Loan guarantee notes	9,910,000
Claims and judgments	15,278,593
Compensated absences	701,029
LIMS refinancing debts	2,707,744
Interest due on sale of accounts	<u>3,403,437</u>
	<u>\$ 247,450,104</u>

Reconciliation of invested in capital assets, net of related debt:

Total capital assets, net of accumulated depreciation	<u>\$ 192,644,651</u>
Deduct:	
Bonds payable:	
Ordinance No. 104 (Series 1990-91)	933,150
Ordinance No. 109 (Series 1996-97)	6,085,000
Ordinance No. 98 (Series 1998-99)	2,000,000
Ordinance No. 66 (Series 2000-01)	28,261,226
Ordinance No. 61 (Series 2001-02)	32,723,418
Ordinance No. 34 (Series 2003-04)	54,240,000
Section 108 Loan Guarantee	<u>9,910,000</u>
	<u>134,152,794</u>
Invested in capital assets, net of related debt	<u>\$ 58,491,857</u>

4. CASH AND CASH EQUIVALENTS

The Municipality is authorized to deposit its cash and cash equivalents only in institutions approved by the Commonwealth of Puerto Rico Treasury Department and such deposits should be kept in separate accounts in the name of the Municipality. Such financial institutions should maintain collateral for the cash deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) as established by Law No. 69 of August 14, 1991 "Law regulating the deposits of public funds and to provide about security". The cash and cash equivalents deposited in Governmental Development Bank are excluded of the requirements of this Law and the Municipality does not have a deposit policy about these deposits. As of June 30, 2005, Municipality's cash and cash equivalents are classified by custodial credit risk category, as follows, and as shown in page 36:

Category 1 - Deposits are collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.

Category 2 - The deposits are uninsured and uncollateralized.

Description	Bank Balance	Custodial Credit Risk Category	
		1	2
General fund:			
Commercial banks	\$ 40,849,618	\$ 40,849,618	
Governmental Development Bank (GDB)	13,537,584		\$ 13,537,584
Cash equivalents:			
Certificate of deposit with GDB due on July 1, 2005 at an interest rate of 3.17%	15,026,416		15,026,416
Certificate of deposit with commercial bank due on June 30, 2005 at an interest rate of 3.15%	200,000	200,000	
Certificate of deposit with commercial bank due on July 1, 2005 at an interest rate of 3.62%	15,000,000	15,000,000	
Total for general fund	<u>\$ 84,613,618</u>	<u>\$ 56,049,618</u>	<u>\$ 28,564,000</u>
Health and Human Services Grants (HHS) - Commercial banks	<u>\$ 3,732,997</u>	<u>\$ 3,732,997</u>	
Head Start - Commercial banks	<u>\$ 184,261</u>	<u>\$ 184,261</u>	
Workforce Investment Act Grants (WIA) - Commercial banks	<u>\$ 111,346</u>	<u>\$ 111,346</u>	
Others funds:			
Commercial banks	\$ 803,150	\$ 803,150	
Governmental Development Bank	84,888		\$ 84,888
Total for others funds	<u>\$ 888,038</u>	<u>\$ 803,150</u>	<u>\$ 84,888</u>
Debt services - Governmental Development Bank	<u>\$ 15,588,550</u>	<u>\$</u>	<u>\$ 15,588,550</u>
Total in commercial banks	\$ 60,881,372	\$ 60,881,372	
Total in Governmental Development Bank	<u>44,237,438</u>		<u>44,237,438</u>
Total cash and cash equivalents	<u>\$ 105,118,810</u>	<u>\$ 60,881,372</u>	<u>\$ 44,237,438</u>

5. PROPERTY TAXES

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The personal property tax is self-assessed by the taxpayer. The assessment is made in a return, which must be filed with the CRIM by May 15 of each year. The real property tax is assessed by the CRIM on each piece of real estate and on each building. The assessment is made as of January 1 of each year and is based on estimated current values of the real property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.33% for real property and 6.33% for personal property. The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.50%	1.50%
Discounts made by state to taxpayer	<u>(.20%)</u>	<u>(.20%)</u>
	<u>8.33%</u>	<u>6.33%</u>

The Municipality's basic property tax rate represents the portion, which is appropriated for general purposes and accounted for in the general fund.

The additional special property tax - state is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

The additional special property tax - municipal is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the debt service fund when collected by the CRIM and reported to the Municipality.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2005, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$62 millions of which \$826,000 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2005.

See information regarding property tax claim made by the Municipality to CRIM in note 20 to the basic financial statements.

On June 26, 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted.

Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities through a 30-year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 millions, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. The government-wide statement of net assets includes an outstanding debt balance of \$3,403,437.

6. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represents taxes, which are due and uncollected at June 30, 2005. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality are as follows:

Financial institutions - 1.50% of gross revenues

Other organizations - .30% for annual sales up to \$500,000 and, .50% over such volume.

7. INTERFUND TRANSACTIONS

Interfunds transactions between funds are as follows:

	Amount	Purpose
HUD grants:		
Section 8 - Voucher	\$ 1,040,274	Reimbursable expenditures
Loan guarantee	675,375	Reimbursable expenditures
Others	<u>114,592</u>	Reimbursable expenditures
Total HUD grants	<u>1,830,241</u>	
HHS grants:		
Head Start	1,256,816	Reimbursable expenditures
Others	<u>581</u>	Reimbursable expenditures
Total HHS grants	<u>1,257,397</u>	
WIA grants	<u>6,816</u>	Reimbursable expenditures
Others	<u>431,840</u>	Reimbursable expenditures
Total advances between funds	<u>\$ 3,526,294</u>	

Interfund transfers between the general and debt service funds of approximately \$154,886 represent interest income received from the additional special property tax bank account. Interfund transfers from WIA and HUD to General fund of approximately \$197,586 represent indirect cost recovery.

8. ACCOUNTS RECEIVABLE - NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivables at June 30, 2005, consist of the following:

	Gross Amount	Allowance	Net Amount
Municipal license tax	<u>\$ 194,533</u>	<u>\$ 7,970</u>	<u>\$ 186,563</u>
Other	<u>\$ 420,314</u>	<u>\$ 16,430</u>	<u>\$ 403,884</u>

9. DUE FROM GOVERNMENT

Due from government represent grants and contributions due from local and federal governments:

Local governments:		
Municipal Revenue Collection Center (CRIM)		
Department of Education		\$ 2,204,163
Rural Development Corp.		130,450
Other		325,092
		<u>8,955</u>
Total due from local governments		<u>\$ 2,668,660</u>

Federal governments:	
U. S. Department of Labor - WIA	\$ 973,718
Other Governmental Funds - FEMA	266,506
Other governmental funds	102,869
Other Governmental Funds - Ryan White	415,825
HUD - Section 8 Voucher	641,886
HUD - CDBG	6,144,023
HUD - HOME	147,025
HUD - UDAG	61,074
HUD - Emergency Shelter	17,470
HUD - Disaster Recovery Initiative Hortense	<u>16,892</u>

Total due from federal governments 8,787,288

10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

Primary Government Governmental Activities	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 26,728,024			\$ 26,728,024
Construction in progress	<u>33,212,934</u>	\$ 7,831,490	\$ 470,702	<u>40,573,722</u>
Total capital assets, not being depreciated	<u>59,940,958</u>	<u>7,831,490</u>	<u>470,702</u>	<u>67,301,746</u>
Capital assets, being depreciated:				
Buildings and building improvements	31,343,667	2,926,658		34,270,325
Land improvements	2,627,172			2,627,172
Machinery and equipment	29,913,076	6,638,239	547,889	36,003,426
Infrastructure	<u>100,278,863</u>	<u>521,702</u>		<u>100,800,565</u>
Total capital assets, being depreciated	<u>164,162,778</u>	<u>10,086,599</u>	<u>547,889</u>	<u>173,701,488</u>
Less accumulated depreciation for:				
Buildings and building improvements	6,581,705	1,618,285		8,199,990
Land improvements	489,933	47,289		537,222
Machinery and equipment	19,684,078	1,667,862	(225,957)	21,125,983
Infrastructure	<u>17,853,223</u>	<u>642,165</u>		<u>18,495,388</u>
Total accumulated depreciation	<u>44,608,939</u>	<u>3,975,601</u>	<u>(225,957)</u>	<u>48,358,583</u>
Total capital assets, being depreciated, net	<u>119,553,839</u>	<u>6,110,998</u>	<u>321,932</u>	<u>125,342,905</u>
Governmental activities capital assets, net	<u>\$ 179,494,797</u>	<u>\$ 13,942,488</u>	<u>\$ 792,634</u>	<u>\$ 192,644,651</u>

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005 were as follows:

Funds	Vendors	Salaries and Benefits	Total
General fund	\$ 11,145,204	\$ 286,033	\$ 11,431,237
HUD programs	338,324	76,335	414,659
WIA programs	222,365	65,714	288,079
HHS programs	550,712	281,812	832,524
Other governmental funds	<u>414,444</u>	<u>-</u>	<u>414,444</u>
Total on balance sheet	<u>\$ 12,671,049</u>	<u>\$ 709,894</u>	13,380,943
Plus obligation paid with CAE Funds			<u>5,265,000</u>
Total on statement of net assets			<u>\$ 18,645,943</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2005 was as follows:

Puerto Rico Electric Power Authority	\$ 2,019,192
Puerto Rico Public Building Authority	1,696,240
Employee's Retirement System	732,888
Puerto Rico Water and Sewer Authority	128,964
Internal Revenue Service	266,146
U.S. Housing Urban Development Department	<u>1,175,010</u>
Total	<u>\$ 6,018,440</u>

13. INTERGOVERNMENTAL REVENUES

Following is a detail of intergovernmental revenues:

Federal agencies:

HHS - Ryan White Grant	\$ 3,549,852
HHS - Head Start Grant	11,882,085
DOL - WIA Grants	4,589,623
HUD - Emergency Shelter Grant	214,473
HUD -CDBG	6,256,000
HUD - Section 8 - Voucher	8,877,800
HUD - HODAG	564,127
HUD - HOME	332,337
HUD - Section 8 - Moderate I and II	901,705
U.S. Department of Justice - local Law Enforcement Grant	264,600
U.S. Department of Agriculture - USDA	685,457
U.S. Department of Justice - Homeland Security	<u>102,868</u>
Total federal agencies	<u>\$ 38,220,927</u>

State agencies:	
Communities Rehabilitations Projects - Special Communities Trust	\$ 4,150,200
Puerto Rico Department of Natural Resources	289,272
Commonwealth of Puerto Rico Joint Resolutions	29,373,753
Puerto Rico Electric Power Authority	6,878,839
Subsidy and Lottery of Puerto Rico - CRIM	1,117,112
Other intergovernmental revenues	5,502
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditure	1,382,447
Citizen Participation for the Municipal Development Program - CRIM	264,107
Rural Development Projects	<u>1,035,042</u>
 Total state agencies	 <u>\$ 44,496,274</u>

14. DEFERRED REVENUES

Municipal license tax

The deferred revenues of approximately \$17.2 millions in the general fund related to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

Federal government

The deferred revenues presented as federal and local government represent the portion of federal grants approved and/or received for which all applicable eligibility requirements are not met as established by GASB Statement No. 33. These were related to the following federal programs/grants:

Program/Grant description

San Antón Project	\$ 165,420
Loan Guarantee Assistance	1,194,871
Department Agriculture - USDA	109,375
Home Devolution	333,744
Others	5,908
Jeanne Hurricane	84,488
Head Start Grant	494,548
Child Care	24,391
HUD - UDAG	104,533
HUD - others	62,811
HUD - Community Development Block Grant	<u>14,800</u>
 Total	 <u>\$ 2,594,889</u>

15. LONG-TERM DEBT

Bonds outstanding at June 30, 2005 consist of:

1991 Public improvements bond due in annual installments of \$420,000 to \$1,415,000, through July 1, 2006; with interest ranging from 5.62% to 6.36%	\$ 1,415,000
1992 Public improvements bond due in annual installments of \$150,000 to \$390,000, through July 1, 2007; with interest ranging from 5.00% to 6.41%	755,000
1997 general obligation bond due in annual installments of \$410,000 to \$1,220,000, through July 1, 2011; with interest ranging from 6.75% to 5.94%	6,085,000
1999 general obligation bond due in annual installments of \$115,000 to \$320,000, through July 1, 2013; with interest ranging from 6.00% to 6.11 %	2,000,000
2004 general obligation bond due in annual installments of \$435,000 to \$2,755,000, through July 1, 2025; with interest ranging from 6.13% to 5.60%	29,220,000
2002 general obligation bond due in annual installments of \$1,115,000 to \$1,740,000, through July 1, 2014; with interest ranging from 4.37% to 5.00%	12,940,000
2002 rent bond due in annual installment of \$800,000 to \$3,195,000, through July 1, 2027, with interest ranging 5.00% to 6.50%	40,000,000
2004 general refunding obligation bond due in annual installments of \$200,000 to \$750,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	10,240,000
2004 special refunding obligation bond due in annual installments of \$250,000 to \$950,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	12,690,000
2004 special refunding obligation bond due in annual installments of \$240,000 to \$995,000, through July 1, 2023; with interest ranging from 2.45% to 5.50%	11,480,000
2004 general obligation bond due in annual installments of \$325,000 to \$1,250,000, through July 1, 2023; with interest ranging from 1.56% to 3.50%	15,470,000
2004 special obligation bond due in annual installments of \$85,000 to \$335,000, through July 1, 2028; with interest ranging 2.45% to 5.60%	4,360,000
2004 special obligation bond due in annual installments of \$150,000 to \$575,000, through July 1, 2028; with interest ranging 2.45% to 5.60%	<u>7,705,000</u>
Total outstanding bonds	<u>\$ 154,360,000</u>

Annual maturity requirements for the general and special obligations bonds are as follows:

	Principal	Interest
2005 - 2006	\$ 7,030,000	\$ 7,655,323
2006 - 2007	5,995,000	7,894,676
2007 - 2008	5,975,000	7,602,608
2008 - 2009	6,345,000	7,311,338
2009 - 2010	6,810,000	6,996,250
2010 - 2015	32,710,000	29,790,686
2015 - 2020	33,140,000	21,618,224
2020 - 2025	39,975,000	11,726,220
2025 - 2030	<u>16,380,000</u>	<u>2,030,314</u>
	<u>\$ 154,360,000</u>	<u>\$ 102,625,639</u>

Loan guarantee assistance notes (LGA)

These notes are payable in annual aggregate principal installments of \$920,000 to \$3,845,000, plus interest rates which fluctuates from 8.04% to 8.19%. These notes are guaranteed by the federal government through the Loan Guarantee Assistance Program and will be repaid from future appropriations to the Municipality's Community Development Block Grant for Puerto Rico program. The balance at June 30, 2005 is \$9,910,000.

Annual maturity requirements for the loan guarantee assistance notes are as follows:

	Principal	Interest
2005 -2006		
2006 -2007	\$ 2,995,000	\$ 461,754
2007 - 2008	1,210,000	358,318
2008 - 2009	920,000	309,958
2009 - 2010	940,000	263,733
2010 - 2015	540,000	223,900
2015 - 2020	2,725,000	619,611
	<u>580,000</u>	<u>18,821</u>
	<u>\$ 9,910,000</u>	<u>\$ 2,256,095</u>

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2005 amounted to approximately \$1,088 millions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

During the year ended June 30, 2005, the Municipality issued \$14,055,000 of Municipal General Obligation Refinancing Bonds (Ordinance No. 53, 2004-05) for a current refunding. Tax Anticipation Note issued on July 2004 by \$10,037,000 with maturity date on September 2004. The remaining balance was used to provide cash flows for general operation.

Component Units

The notes payable by the discretely presented component units are owed by CODEPCOVI and are composed of the following:

Construction loan bearing interest at 1.5% over the prime rate, (effective rate of 7.75% at June 30, 2005) to a maximum amount of \$2,300,000, secured by a mortgage note over land and structures located at Marina, Jobos and Concordia streets.

\$ 999,842

Long-term debt activity for the year ended June 30, 2005 was as follows:

Primary Government Governmental Activities	Balance at June 30, 2004	Payment Principal	Interest	Increase	Balance at June 30, 2005	Due within One Year
Public improvements bonds	\$ 3,810,000	\$ 1,640,000	\$ 241,805		\$ 2,170,000	\$ 1,780,000
General obligation bonds	54,815,000	3,155,000	2,722,158	\$ 14,055,000	65,715,000	3,360,000
General refunding obligation bonds	10,450,000	210,000	536,722		10,240,000	225,000
Special refunding obligations bond	24,730,000	560,000	1,254,501		24,170,000	600,000
Special obligation bond	12,315,000	250,000	615,750		12,065,000	265,000
Tax anticipation note		10,037,000	238,379	10,037,000		
Loan guarantee assistance (LGA) notes	11,745,000	1,835,000	574,040		9,910,000	2,995,000
Rent bond	40,000,000		1,000,000		40,000,000	800,000
Subtotal	<u>157,865,000</u>	<u>17,687,000</u>	<u>7,183,355</u>	<u>24,092,000</u>	<u>164,270,000</u>	<u>10,025,000</u>
Property tax advance - CRIM	57,407,068			4,508,400	61,915,468	826,169
LIMS Refinancing debt - CRIM	3,040,130	332,386	176,016		2,707,744	352,457
Interest due for accounts sold - CRIM		262,799		3,666,236	3,403,437	221,691
Landfill obligation	6,371,896	6,371,896				
Claims and judgment	450,000			251,029	701,029	150,000
Compensated absences	13,783,243	1,088,189		2,583,439	15,278,493	4,978,898
Subtotal	<u>81,052,337</u>	<u>8,055,270</u>	<u>176,016</u>	<u>11,009,104</u>	<u>84,006,171</u>	<u>6,529,215</u>
Total long-term debt	<u>\$ 238,917,337</u>	<u>\$ 25,742,270</u>	<u>\$ 7,359,371</u>	<u>\$ 35,101,104</u>	<u>\$ 248,276,171</u>	<u>\$ 16,554,215</u>
Component Units	Beginning Balance	Additions	Reductions		Ending Balance	Due within One Year
CODEPCOVI - Notes payable	<u>\$ 1,928,098</u>	<u>\$ -</u>	<u>\$ 928,256</u>		<u>\$ 999,842</u>	<u>\$ 999,842</u>

16. RETIREMENT PLAN

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January, 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2005 was approximately \$3.8 millions. The Municipality total payroll for all employees was approximately \$52 millions. For the two preceding fiscal years, the Municipality contributed approximately \$3.7 millions and \$3.4 millions, which represented 100% of required contributions.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2003, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. EXTRAORDINARY GAIN

Pursuant to Resolution number 50, Series 2005-2006, the Municipality forgiven the CODEPCOVI's excise tax liability in the amount of \$356,828 regarding Estancias de Aragón project. Also, HUD forgiven \$157,850 related to HOME program. The condonement of the above mentioned debts aggregate to \$ 514,678.

19. COMMITMENTS

Primary Government

Operating lease

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the basic financial statements for the year ended, June 30, 2005, amounted to approximately \$2.2 millions. Management believes that the summary of the future' minimum rental commitments under noncancellable real property and equipment lease with terms exceeding one year is not significant.

Construction

The Municipality had commitments at June 30, 2005 of approximately \$10 millions for the construction, improvements, or renovation of several municipal facilities.

Component unit

Operating lease

The Port of Ponce is the lessor of certain dock and warehousing facilities. Future minimum rentals receivable under such leases at June 30 2005 are as follows:

Fiscal year ending June 30,	
2006	\$ 1,086,388
2007	1,086,388
2008	1,086,388
2009	1,086,388
2010	<u>1,086,388</u>
Total	<u>\$ 5,431,940</u>

20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER

Contingencies and claims and judgments against the Municipality

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against the Municipality not covered by insurance are by the amount of \$701,029 at June 30, 2005. In addition, the management's opinion based on the advice of the legal counsel, that the possible claims against the Municipality not covered by insurance are estimated in the amount of \$186,000 at June 30, 2005 and will not affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs, funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMS Circular A-133" for the year ended June 30, 2004, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls.

If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. Although, such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

Primary government litigations and claims in favor of the Municipality

In June 1996, the Ponce Superior Court of the Puerto Rico Court of First Instance entered judgment in favor of the Municipality against several government agencies and the Central Government. Through this judgment, the Court ordered the defendants to construct about 54 projects, which management estimates cost approximately \$160 millions, which were included in the Municipal Land Use Plan of the Municipality, and also ordered the defendants to pay the Municipality damages in the amount of \$16.5 millions. The parties involved were notified of the judgment on June 26, 1996 and from that date, the amount of the judgment earns interest at 5% annually. The judgment was appealed by all defendants to the Circuit Court and on December 2, 1997 the Circuit Court of Appeals upheld the judgment entered by the Ponce Superior Court. However, the Court modified the damage award and determined that the precise amount of damages to be granted to the Municipality should be determined once the projects covered by the judgment are finished. The Municipality was denied a reconsideration of this determination and appealed to the Supreme court in April 1998 with the purpose, of reinstating the damage award. In December 2000, the Supreme Court entered a judgment in favor of the Municipality. Since then, management has been negotiating with the Central Government a work schedule for the realization of the project and the collection of the damages. During the fiscal year ended June 30, 2005, the Municipality received approximately \$5 millions related to this case.

21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

The Municipality owns a landfill, which is used by several municipalities including Ponce and administered by BFI Industries, the landfill administrator, an independent private entity, under an agreement with the Municipality. The Municipality is entitled, under the agreement with the administrator, to certain revenues, principally royalties, resulting from the use of the landfill. For the year ended June 30, 2005, revenues earned under the agreement amounted to \$2,087,928 millions and are presented in the accompanying statement of changes in net assets and statement of revenue, expenditures and changes in fund balances.

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In accordance with Statement No. 18 of the "GASB", "Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs", the Municipality obtained a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. As of June 30, 2005, the estimated remaining life was approximately 9.5 years.

The Municipality of Ponce formalized an agreement with BFI of Ponce Inc. for the gather, transportation and disposal of municipal waste with period of five (5) years from July 1, 2001 to June 30, 2009. Under this agreement, BFI assume all related costs of activities and resources to complete the services contracted.

The agreement includes the extension and amendment of lease of land common and structures known as "Facilidades del Garage El Tuque" for a period of five (5) years from July 1, 2004 to June 30, 2009. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of JCA (Junta de Calidad Ambiental) and EPA (Agencia Federal de Protección Ambiental). The charge for service amount is \$6.35 by residential unit and payable monthly to the contractor, and services for public housing are be free if charges. Under this contract the Municipality is free of liability for closure and post-closure costs; therefore, an escrow account is not required.

22. RESTATEMENT OF 2004 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2005, the Municipality notes that certain liabilities had been overstated or understated as of June 30, 2004 and accordingly, the net assets at June 30, 2004, as previously reported, has been increased by \$9,149,589 and the fund balance of the general, WIA and HUD funds at June 30, 2004, as previously reported, have been increased by \$3,695,837, \$75,414 and \$6,514,560, respectively.

A summary of the effects of the restatements in the fiscal year 2004 financial statements is as follows:

<u>Statement of activities</u>	Total
Amount overstated in accounts payable	\$ 3,981,776
Correction of accounting errors	1,164,086
Unrecorded amount of final liquidation of CRIM	581,692
Cancellation of landfill obligation	6,371,896
Corrections of application of accounting principles (GASBS no. 33)	6,589,974
Amount due to AEE	(1,255,086)
Accrued salaries and benefits	(776,631)
Interest on accounts sold - CRIM	(3,666,236)
Unrecorded bonds payable - debt service fund	(3,519,950)
Net change in capital assets - disposal of equipment	<u>(321,932)</u>
Total	<u>\$ 9,149,589</u>

	<u>General</u>	<u>WIA</u>	<u>HUD</u>	<u>Total</u>
<u>Statement of revenues, expenditures and changes in fund balances</u>				
Amount overstated in accounts payable	\$ 3,981,776			\$ 3,981,776
Correction of accounting errors	1,164,086			1,164,086
Unrecorded amount of final liquidation of CRIM	581,692			581,692
Corrections of application of accounting principles (GASBS no. 33)		\$ 75,414	\$ 6,514,560	6,589,974
Amount due to AEE	(1,255,086)			(1,255,086)
Accrued salaries and benefits	(776,631)			(776,631)
Total	<u>\$ 3,695,837</u>	<u>\$ 75,414</u>	<u>\$ 6,514,560</u>	<u>\$ 10,285,811</u>

23. SUBSEQUENT EVENTS

During the fiscal year ended June 30, 2005, Legislature Assembly of the Commonwealth of Puerto Rico approved the Law No. 537 of September 30, 2004. "Municipalización de los Estadios de Ponce, Caguas, Mayagüez y Arecibo". This Law establishes, among other things, that the Recreational and Sports Department should transfer the ownership title of the Auditorium Pachín Vicéns and the Paquito Montaner Stadium to the **Municipality**. This transfer was finally completed in October 5, 2005. The Ordinance No. 10 (2005-06) authorized the Mayor to realize this process.

On September 2005, the **Municipality** created The Ponce Municipal Bank for the purpose to promote the economic and social development of the citizenship with flexible financing mechanism to develop low-income housing units and commercial projects. The initial working capital is \$200,000 and the possibility to increase to \$1,000,000 during the fiscal year ending June 30, 2006.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF THE 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 (the Municipality)** as of and for the year ended June 30, 2005, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 21, 2005. 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.

Internal control over financial reporting

In planning and performing our audit, we considered the **Municipality's** internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the basic financial statements and not to provide an opinion 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 over financial reporting that, in our judgment, could adversely affect the **Municipality's** ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs, as items 2005-01 (FS), 2005-02 (FS), 2005-03 (FS) and 2005-04 (FS).

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 basic 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 2005-02 (FS) and 2005-03 (FS) to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Municipality's basic 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 tests 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 2005-01(FS), 2005-02 (FS), 2005-03 (FS) and 2005-04(FS).

This report is intended solely for the information and use of the following state agencies of the Commonwealth of Puerto Rico: Office of the Commissioner for Municipal Affairs, Council of Occupational Development and Human Resources, Office of the Comptroller, Governmental Development Bank, Justice Department; audit committee, 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.

March 23, 2006



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Ponce, Puerto Rico

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affixed to the original report.



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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 (the Municipality)** 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, 2005. **The Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **the Municipality's** management. Our responsibility is to express and opinion on **the Municipality'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 and 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 **the Municipality'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 **the Municipality's** compliance with those requirements.

As described in items 2005-01 (FA) thru 2005-18 (FA) in the accompanying schedule of findings and questioned costs, **the Municipality** did not comply with certain requirements regarding to allowable costs and cost principles, cash management, eligibility, matching, earmarking, period of availability of funds, procurement and suspension and debarment, reporting, sub recipient monitoring and special test and provisions for the following federal award programs:

Head Start	(CFDA No. 93.600)
HIV Emergency Relief Project Grant	(CFDA No. 93.914)
Community Development Block Grant/Entitlement	(CFDA No. 14.218)
Section 8 Housing Choice Voucher	(CFDA No. 14.871)

Compliance with such requirements is necessary, in our opinion, for **the Municipality** to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005.

Internal control over compliance

The management of the **Municipality** 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 the **Municipality'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 the **Municipality'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 2005-01 (FA), 2005-02 (FA), 2005-03 (FA), 2005-05 (FA), 2005-06 (FA), 2005-07 (FA), 2005-08 (FA), 2005-09 (FA), 2005-10 (FA) and 2005-18 (FA).

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. However, of the reportable conditions described above, we consider items 2005-03 (FA), 2005-06 (FA), 2005-10 (FA), 2005-12 (FA), 2005-13 (FA), 2005-16 (FA) and 2005-18 (FA) to be material weaknesses.

This report is intended solely for the information and use of the following state agencies of the Commonwealth of Puerto Rico: Office of the Commissioner for Municipal Affairs, Council of Occupational Development and Human Resources, Office of the Comptroller, Governmental Development Bank, Justice Department; audit committee, 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.

March 23, 2006



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Ponce, Puerto Rico

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COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor/Program Title	Federal CDFA Number	Pass through Grantor Number	Federal Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
<u>Pass through program:</u>			
Commonwealth of Puerto Rico Education Department - Child and Adult Care Food Program	10.558	CCC-049	\$ <u>685,457</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Direct programs:</u>			
Community Development Block Grant (CDBG) Program, Entitlement Grants	14.218		4,856,865
Emergency Shelter Grants Program	14.231		214,473
Home Investment Partnerships Program	14.239		332,337
Section 8 Housing Choice Voucher	14.871		7,835,220
Section 8 – Project – Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 – Moderate Rehabilitation I	14.856		554,091
Section 8 – Moderate Rehabilitation II	14.856		<u>169,526</u>
 Total U.S. Department of Housing and Urban Development			 <u>13,962,512</u>
U.S. DEPARTMENT OF LABOR:			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:	17.258		1,730,043
Adult Program	17.259		1,282,025
Youth Activities	17.260		<u>814,807</u>
Dislocated Workers			
 Total U.S. Department of Labor			 <u>3,826,875</u>

See notes to schedule of expenditures of federal awards.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass through Grantor Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<u>Direct programs:</u>			
Administration for Children, Youth, and Families – Head Start	93.600		\$ 1,467,517
HIV Emergency Relief Project Grants	93.914		<u>3,549,852</u>
Total U.S. Department of Health and Human Services			<u>15,017,369</u>
U.S. DEPARTMENT OF JUSTICE:			
<u>Pass through program:</u>			
Commonwealth of Puerto Rico Department of Justice - Local Block Law Enforcement Grant	16.592	2000-LB-BX	<u>264,600</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Justice:			
Homeland Security Grant Program	97.067	2004-GE-T4-0008	102,896
Supplemental Implementation Grant	97.2000-LB-PMB	2000-LB-PMP	<u>13,850</u>
Total U.S. Department of Homeland Security			<u>116,719</u>
TOTAL			<u>\$ 33,873,532</u>

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the Municipality'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 in 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:

	Expenditures
Total federal expenditures per schedule	<u>\$ 33,873,532</u>
Federal expenditures per basic financial statements included herein:	
Housing and Urban Development Grants	\$ 14,526,640
Less recapture funds (HODAG Grant)	<u>(564,128)</u>
	13,962,512
Health and Human Services Grants	15,017,369
Workforce Investment Act Grants	3,826,875
Other governmental funds	1,052,925
Federal expenditures included in general fund	<u>13,850</u>
Total	<u>\$ 33,873,532</u>

3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2005, the Municipality provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 3,122,326
Community Development Block Grant (C.D.B.G.) Program Entitlement Grants (14.218)	530,929
Emergency Shelter Grants Program (14.231)	<u>152,263</u>
Total	<u>\$ 3,805,518</u>

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2005, the Municipality paid the amount of \$2,409,040 as a repayment of Section 108 Loan Guarantee Assistance Notes (LGA).

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

PART I - SUMMARY OF AUDITORS' RESULTS

- 1) The independent auditors' report on the basic financial statements of the **Municipality of Ponce** expressed a qualified opinion.
- 1) There were reportable conditions on internal controls over financial reporting.
- 2) Instances of material noncompliance with the financial statements of the **Municipality of Ponce** were disclosed during the audit.
- 3) There were reportable conditions on internal controls over major programs.
- 4) The independent auditors' report on compliance with requirements applicable to major federal award programs for the **Municipality** expressed a qualified opinion.
- 5) The audit disclosed findings required to be reported by OMB Circular A-133.
- 6) **The Municipality** major programs were:
 1. Section 8 Housing Choice Vouchers CFDA No. 14.871
 2. Community Development Block Grant Program/Entitlement CFDA No. 14.218
 3. Head Start Program CFDA No. 93.600
 4. HIV emergency Relief Project Grants CFDA 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
- 7) A threshold of \$1,016,206 was used to distinguish between Types A and B programs as those terms are defined in OMB Circular A-133.
- 8) **The Municipality** did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II – FINANCIAL STATEMENTS FINDINGS SECTION

(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such.)

Finding number 2005-01 (FS) - Operating deficit of general fund (Prior year reported - first year reported in 1986)

Condition

The Municipality's system of internal control relating to the budgeting function does not provide financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (fund no. 10). **The Municipality** closed its fiscal years ended June 30, 2005 and 2004 with a general fund deficiency of approximately \$21.3 and \$22.2 millions, respectively.

Criteria

Article 7.011, Section (b) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico of August 30, 1991 (Law), as amended, establishes that; "Provides that accrued deficit in the Municipality, by public debt, will be amortized in a period of 30 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts".

Cause

This occurred because the prior years financial statements did not provide the exact amount applied to fund number 10 in the general fund although other state and local funds are recorded in this governmental fund for financial statements purposes.

Effect

Although this reserve account was not budgeted, the Finance Department controls the operational budget (Fund no. 10) generating a surplus for the fiscal year 2004-05 of \$946,126 for amortization of the accrued deficit. The reserve account budgeted is a control tool for future periods when the resources do not provide a surplus due to incremental costs for the year.

Recommendation

Although **the Municipality** adjusts the funds of this governmental fund, we recommend it evaluates the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law.

Finding number 2005-02 (FS) - Accounting management system (MW)

Condition

Management had not adopted the GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", in the other governmental funds. Accounting principles generally accepted in the United States required that nonexchange transactions be evaluated in accordance with the provisions of this Statement. The amount by which this departure would affect assets, liabilities and fund balance of the other funds was not reasonably determined. As a result, the net assets as of June 30, 2004, as previously reported, were restated.

During our tests of the financial accounting system of **the Municipality**, we noted that the computerized system of accounting does not provide for adequate and effective financial information. As a consequence, the finance and budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, in prior year a debt that was collected by CRIM through property tax advances reports was not included in the long-term debt account and in prior years, some bank accounts and governmental funds, were not closed. Also the capital assets and long-term debt analysis were prepared using the spreadsheet software.

The compensated absences debt report prepared for the fiscal year ended June 30, 2005 was not in accordance with GASB Number 16 "Accounting for Compensated Absences". This report was corrected through a suggested audit entry.

Federal income related to indirect cost was recorded in the general fund as federal revenue and was also recorded in federal programs as federal revenues. This transaction was subsequently reclassified for financial statements purposes.

Criteria

Article 8.010, Sections (a) & (b) of the Law, indicates that the accounting management system established in the **Municipality** should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by governmental accounting standard board.

Cause

The lack of integration of external accounting resource in the evaluation of the internal accounting system, caused that accounting personnel were not to be adequately trained to correct the information provided by the system.

Effect

The lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements could limit the rapid response of management in financial public affair issues.

Recommendation

We recommend increased financial training of the accountants in charge for the preparation of financial and statistical reports to permit the accounting system to comply with legal requirements.

Finding number 2005-03 (FS) - Municipal License Tax Revenues (MW)

Condition

We have performed audit procedures to sixty (60) municipal license tax returns (the tax return) and noted the following exceptions:

- 1) In three cases (5%), the extension form filed by the taxpayer did not establish a waiver period granted and the **Municipality** officer's signature.
- 2) In two taxpayer files examined (3%), the tax return for the fiscal year 2005-06 was not available.
- 3) In three taxpayer files examined (5%), the tax return for the fiscal year 2005-06 was not sign and date by the taxpayer.
- 4) In two taxpayer files examined (3%), the tax return was not filed with the required audited financial statements.
- 5) In one taxpayer file examined (2%), the tax return was missing.
- 6) In two taxpayer files examined (3%), the tax return does not include a breakdown of revenue by municipality required.
- 7) There is no evidence on three taxpayer files (5%) of tax exemption granted.
- 8) In two taxpayer files examined (3%), other income was not taxable.
- 9) In four taxpayer files examined (7%), the tax return was not stamped when received indicating the filing date.

10) In five taxpayer files examined (8%), we noted that the revenues reported in the audited financial statements did not reconcile to the tax returns filed.

11) The accounts receivable from municipal license taxes report submitted with the budget for the fiscal year 2005-06, has some errors, such as; tax returns liabilities imposed to taxpayers, which were eliminated by the system, interests and surcharges applied to taxpayers that filed tax returns correctly and on time.

Criteria

Chapter IX of the Basic Rules and Regulations for the Municipalities of Puerto Rico (Regulations), as reviewed, establishes the procedures to be followed by municipal officers in the collection and verification of this tax resource.

Cause

This situation could cause that the tax returns filed has not been adequately examined.

Effect

The lack of adequate evaluation of tax returns filed could cause that **the Municipality** does not collect the resources available by Law so that the Mayor can use the empowerment authorized by Article 8.003 of Law "Collection of debts recorded by **the Municipality**".

Recommendation

We recommend that **the Municipality** should train the personnel working with the review of the tax returns filed, including the supervisory level.

Finding number 2005-04 (FS) - Capital fixed assets, work of art and historical treasures

Condition

Capital Assets:

In the evaluation of real property records, we noted three capital assets that did not have evidence of title of property. These capital assets are Municipal Library, Public Car Terminal and the Community Center Concha Clavel.

Works of art and historical treasures:

In the evaluation of the implementation procedures established for financial statements prepared under GASB number 34, we noted that **the Municipality** does not have formal procedures established for the use and disposition of works of art and historical treasures. Also, Valentin Tricoche Painting was not recorded in the subsidiary property records.

Criteria

Chapter IX of Law and Chapter VII establish the procedures to be followed with the control and custody of municipal properties.

Cause

Absence of integration of these financial assets in the accounting management system diminishes adequate monitoring process.

Effect

The lack of formal policy over the works of art and historical treasures assets could cause error in their capitalization and depreciation amounts in the financial statements. The lack of ownership titles could affect the future use of the capital assets.

Recommendation

We recommend that **the Municipality** should establish a formal policy over the use of works of art and historical treasures assets and should also establish adequate procedures to have the property titles.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such. A letter at the end of the finding title referred to the type of compliance requirement as per OMB Circular A-133 Compliance Supplement).

FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)

Finding number 2005-01 (FA) – Disbursement process (B)

Condition

We have performed audit procedures to forty (40) vouchers of payments and noted the following exceptions:

- 1) A supplier of transportation submitted an invoice for \$558 dated August 18, 2004 for services rendered for the month of August 2004 and it was paid totally without explanation for the advance billing. The voucher payment number was 05200021.
- 2) The voucher payments number 05200021 and 05200835 have no evidence of competition process. In addition, voucher payment number 05200671 has two quotations that did not provide physical and postal address of the vendor in it.
- 3) Some checks for vendors' payments were picked-up in the payment office of **the Municipality** by personnel of Head Start, who are not authorized.

Criteria

Subpart C of the Code of Federal Regulations (CFR) No. 45, Section 92.20 (b)(3) establishes that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Section 92.36 (b) (9) establishes the procurement procedures over contractor selection. Article 8.005 of Law "Responsibility over Legality and Accuracy of Expenses" establishes the procedures to be following in the disbursement process.

Cause

The lack of an effective control over procurement procedures and authorization letters for the checks delivered.

Effect

The lack of control could affect Programs' efforts to obtain competent contractors for services contracted and that unauthorized officers manage the suppliers' checks.

Recommendation

We recommend that **the Municipality** should establish effective and adequate internal controls over procurement process and delivery of vendors' checks.

Questioned Cost

None

FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)

Finding number 2005-02 (FA) - Cash management (C)

Condition

During our audit, we observed that three checks out of twenty-one examined, were sent to the vendors after fifteen days that these were picked-up from the payment office of the **Municipality**. Cash balance as of June 30, 2005 was \$101,480 as compared to \$14,565 as of June 30, 2004.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) (c) requires recipients to minimize the time elapsing between the transfer of funds to the recipient and the issuance and redemption of checks, warrants or payments by other means for program purposes by the recipient.

Cause

The lack of effective cash management system procedures established by Program for compliance with this federal requirement causes payment to vendors was delivered over a prolonged period of time.

Effect

The Municipality has excess of cash as established by federal regulations.

Recommendation

We recommend that **the Municipality** should take the effective and necessary actions to improve compliance with federal requirement for cash management regarding payment to suppliers and cash balance.

Questioned Cost

None

FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)

Finding number 2005-03 (FA) - Participants area (E) (MW)

Condition

We have performed eligibility test to twenty-five participants and noted the following exceptions:

- 1) One file examined did not include copy of birth certificate.
- 2) One file examined did not include evidence of family income to examine the selection process made by the program.
- 3) Twenty-five files examined did not include a family income certification statement signed by Head Start's officer.
- 4) Four files examined did not include evidence of the evaluation of family income for a second participating program year.
- 5) One participant was included in the Over Income Enrollment Report.
- 6) Two participants did not provide evidence of the medical and dental evaluation as required by the program. Also, the dental evaluation form does not provide a space to fill the license number of the dentist.

- 7) Only two progress evaluations were made to the infants during the program year. The progress evaluation form for the infants does not provide a space for the parent's signature after the document is discussed with them.
- 8) The home visit for one participant was not made due to limitations imposed by parents. This visit has the purpose of having knowledge of the housing environment of the infant.
- 9) The Head Start Program did not reach the enrollment level indicated in the Grant Proposal 2004-05 by 140 children because seven centers were not in operations. The federal expenses indicated in the financial status report dated March 3, 2005 were \$11,615,097; the enrollment level proposed was 1,680, which results in a cost per child of \$6,913.75. Therefore, the Municipality expended \$361,164 in excess, determined as follows; $\{(\$6,913.75 \times 140 \text{ children}) - \$606,761 \Rightarrow \text{Surplus reported in the financial status report dated March 3, 2005}\}$.

Also, in seven out of eleven centers examined, the monthly average daily attendance rate was below 85 percent. This situation has the effect of decreasing the Head Start funds for meal payments. As a consequence, the Child Care Food Program would not be responsible to cover up these payments.

Criteria

CFR No. 45, Subpart B Section 1304.20; Subpart C Sections 1304.40 (e), 1304.40 (i) (2); Sections 1305.4 (a), (d), (e); Sections 1305.7 (b), (c) and Section 1305.8 (a) establish the programmatic requirement procedures for Head Start Program.

Cause

The lack of effective enforcement of programmatic procedures established by the Program does not comply with federal requirements.

Effect

The exceptions observed in the attendance at the Heat Start Centers, constitute a material weakness with the compliance requirement causing questioned costs for uncovered enrollment level.

Recommendation

We recommend that the Municipality should take the appropriate actions to correct the lack of effective procedures with the enrollment level to achieve compliance with federal program requirements.

Questioned Cost

\$ 361,164

FEDERAL PROGRAM - HEAD START (CFDA No 93.600)

Finding number 2005-04 (FA) – Matching requirement (G)

Condition

During our test of matching process, we noted that the Head Start Program uses a facility rent study to calculate and record in-kind rent instead an external appraisal valuation. The Program uses a value of \$3.00 per square foot in its study.

Criteria

Subpart C, CFR No. 45, Section 92.24 (g) establishes appraisal of real property. In some cases under paragraphs (d), (e) and (f) of this section, it will be necessary to establish the market value of land or a building or the fair rental rate of land or of space in a building. In these cases, the federal agency may require the market value or fair rental value be

established by an independent appraiser, and that the value or rate be certified by the grantee. This requirement will also be imposed by the grantee on subgrantees.”

Cause

The internal appraisal procedures established by Program for compliance with this federal requirement do not incorporate a fair rental value in facilities donated by third parties.

Effect

The exceptions observed are reportable conditions in the matching requirement process required by federal regulations.

Recommendation

We recommend that **the Municipality** should take the necessary actions and procedures to comply with the regulations in the determination and record of the in-kind rent.

Questioned Cost

None

FEDERAL PROGRAM - HEAD START (CFDA No 93.600)

Finding number 2005-05 (FA) – Contract provisions (I)

Condition

We have performed audit procedures to six contracts and noted the following exceptions:

- 1) Two contracts did not have evidence of competition process.
- 2) Two contracts did not have evidence of being subject to a suspension and debarment certification process.
- 3) Five contracts did not include a clause for providing access to General Accounting Office or other federal agency to the books, documents, and others supporting evidence.
- 4) The transportation contract did not provide a clause for indicating new transportation regulations applicable to the service contracted.

Criteria

Subpart C, CFR No. 45, Section 92.36 (i) and Subpart A 1310.2 (a) establishes for contractual provisions to be imposed for protection over the goods and/or services contracted. Also, Subpart C, CFR No. 45, Section 92.35 establish that “Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier or to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

Cause

The lack of integration of the contractual procedures established by the Municipal Legal Division and the Program does not comply with the federal requirement.

Effect

The exceptions noted are reportable conditions for the procurement process required by federal regulations.

Recommendation

We recommend that **the Municipality** should take the necessary actions to incorporate the Municipal legal requirements with federal procedures for procurement and debarment.

Questioned Cost

None

FEDERAL PROGRAM - HEAD START (CFDA No 93.600)

Finding number 2005-06 (FA) – Accounting management system (L) (MW)

Condition

In the review of the accounting program records, we detected the following:

- 1) The Financial Status Report was submitted on March 3, 2005. The amount included as a total recipient share (net outlay) does not reconcile with the amount recorded in the accounting records by \$120,059. However, **the Municipality** complied with matching level required for the federal funds used.
- 2) The general ledger has no available current funds to cover current debts at June 30, 2005. As a consequence, the program has an account receivable from **the Municipality** for \$1,235,582.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) establishes that “the financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting - Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records - Grantees and subgrantees must maintain records, which 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.”

Subpart D, CFR No. 45 Section 92.52 (a) establish that “any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government.”

Cause

Since the year 2002, the Program has encountered problems with the availability of cash at the end each period to cover debts. The causes were as follows; use of Head Start funds to cover Early Head Start’ center renovation; (funds for this project were not approved by Region II) and reprogramming surplus when funds were inexistent at the payment management system resulting in an accrual deficit against the Grantee.

Effect

The deviations detected are material weakness as in the cash management system that could cause the disbursement of local funds to Region II.

Recommendation

We recommend the Municipality take the actions necessary to correct this situation in coordination with Region II.

Questioned Cost

None

FEDERAL PROGRAM - HEAD START (CFDA No 93.600)

Finding number 2005-07 (FA) – Center facilities (N)

Condition

During our test of six centers, we noted the following exceptions:

- 1) Hogar Infantil I - Undercover electric wires in mini split unit, without emergency light and damaged hackle in outdoor space.
- 2) Tuque II - Emergency light did not turn on, ceiling filtration in children's restroom and hazardous objects in outdoor spaces such as exposed metal tube, construction block in exit to playground and obsolete equipment.
- 3) Perla de Caribe II - Emergency light does not turn on, obsolete equipment in outdoor space and window metal screen in children's restroom.
- 4) Paraiso - No emergency light, storage room in each of the children's restroom is open, water leak in the kitchen sink, and hose at the playground area.
- 5) León I - No emergency light and smoke detector, electric outlet without security covers, cleaning material in children's restroom and hazardous objects in outdoor spaces such as obsolete equipment, three holes in playground and gas line disjoined of exterior wall.

Criteria

Subpart D, CFR No. 45, Section 1304.53 establish that "Grantee and delegate agencies must provide for the maintenance, repair, safety, and security of all Early Head Start and Head Start facilities, materials and equipment".

Cause

The lack of integration of the programmatic procedures between the Program and the Publics Work Department does not comply with federal requirements.

Effect

The exceptions observed are reportable conditions in the centers safety standards required by federal regulations.

Recommendation

We recommend that **the Municipality** should take the necessary actions to correct this finding for compliance with federal requirement.

Questioned Cost

None

FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)

Finding number 2005-08 (FA) – Accounting management system (L)

Condition

The Municipality has no an effective accounting system procedures to ensure the timely and accurate reconciliation of the accounting records maintained by the program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial data is maintained in electronic spreadsheets.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) establishes that “the financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting - Accurate, current, and complete disclosure of the financial results of the financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records - Grantees and subgrantees must maintain records, which 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.

Cause

The program does not maintain a formal set of books of accounting and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial information is maintained only in electronic spreadsheets.

Effect

The condition could result in the possibility of not detecting or preventing errors or irregularities on a timely basis because of the absence of central oversight of all of the Municipality’s financial operations.

Recommendation

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

Questioned Cost

None

FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)

Finding number 2005-09 (FA) - Cash management (C)

Condition

During our audit of programs’ bank reconciliations, we noted that the average cash balance in the months of July, August and September showed higher balances, which represents 15%, 23% and 22%, respectively of total cash amount balances.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) (c) requires recipients to implement procedures to minimize the time elapsed between the transfer of funds to the recipient and the issuance and redemption of checks, warrants or payments by other means for program purposes by the recipient.

Cause

The Municipality's internal control over cash is not effective since it is holding excessive cash balances in its bank accounts. The program requests cash advance for payroll, medicines and supplements, which represent the most material category costs, without estimating a reasonable elapsing time for disbursement.

Effect

Excessive cash balances kept by program to cover disbursements requirements by federal regulations.

Recommendation

We recommend that the Municipality should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement.

Questioned Cost

None

FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)

Finding number 2005-10 (FA) - Participant earmarking level (G) (MW)

Condition

The Program did not provide adequate supporting documents regarding expenditures and percentage used to provide services to women, infants, children and youth, in order to determine if earmarking reported are reasonable.

Criteria

For the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the prenatal transmission of HIV, an EMA shall use for services to each of these populations an amount not less than the percentage of grant funds made available in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in such area with AIDS, to the metropolitan area's overall population with AIDS (42 USC 300ff-14(b)(4)).

Cause

Total cases for the year are prorated by cost categories. The service providers' agencies (sub recipients) did not submit the reports with proper segregation of population served and costs used in different categories.

Effect

Earmarking level reported might not be accurately traceable to the population served to avoid noncompliance with this federal requirement.

Recommendation

We recommend to the program management, improve an adequate review and supervision of the reports from the agencies and request agencies, if necessary, to segregate the population served by categories and cost to achieve compliance with federal regulations.

Questioned Cost

Not Determinable

FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)

Finding number 2005-11 (FA) - Procurement procedures (I)

Condition

Certification for Suspension and Debarment were not included in the proposal documents submitted by agency service providers. In addition, the Proposal Development Guidelines for Request of Funds does not include the request of federal assurance certifications.

Criteria

Subpart C, CFR No. 45, Section 92.35 establishes that "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Cause

Applicable suspension and debarment actively in process do not comply with federal requirements to the sub-recipient entities.

Effect

Failures to request the certification for suspension and debarment may increase the possibility that **the Municipality** could enter into an agreement with an entity excluded from making contracts or transactions involving federal funds.

Recommendation

We recommend that **the Municipality** should request the certifications of suspension and debarment from the agencies service providers and verify the entity's eligibility in the Excluded Parties List System Website.

Questioned Cost

None

FEDERAL PROGRAM - COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No 14.218)

Finding number 2005-12 (FA) - Public service test (M)(MW)

Condition

The action plan for program year 2004-05 established that eighteen (18) projects, for low-income public services, would be subject to monitoring review process. Only four projects were monitored detecting several findings, for example in the disbursement process area.

Criteria

Subpart C, CFR No. 24, Section 85.40 (a) establishes that "Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Cause

The officer in charge of this process was promoted to other position, which caused the monitoring process not to be performed as was indicated in the action plan.

Effect

The lack of a complete sub recipient monitoring process could weaken the corroboration of adequate use of federal funds provided to the sub recipient entities.

Recommendation

We recommend that the **Municipality** should establish procedures for the integration of the Internal Auditor's Office with Programs' Officers for the compliance with action plan.

Questioned Cost

Not Determinable

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-13 (FA) – Participant files (E) (MW)

Condition

We have performed an eligibility test to twenty five participants' files and, accordingly observed the following exceptions:

- 1) Two files examined (8%) did not include evidence of annual income for the evaluation of the selection process made by the program.
- 2) Five files examined (20%) did not include Sworn Statements, which specified that the participant did not have Value of Assets.
- 3) Two files examined (8%) did not include evidence of family department certification (PAN).
- 4) One file examined (4%) did not include evidence of family members' birth certificates.
- 5) Three files examined (12%) did not include evidence of family members' social security number.
- 6) Two files examined (8%) did not include evidence of verification of studies by family child.
- 7) Two files examined (8%) did not include evidence of ASUME certification.
- 8) Two files examined (8%) did not include evidence of good behavior certificate for family members of 18 years old and up.
- 9) Three files examined (12%) did not include evidence of Sworn Statement that identified the civil status.
- 10) One file examined (4%) did not include evidence of US citizenship declaration form.
- 11) Three files examined (12%) did not include evidence of Municipal Revenue Collection Center Certification (CRIM).
- 12) One file examined (4%) did not include evidence of Authorization for Release of Information/Privacy Act Notice.

Criteria

24 CFR Subpart B 5.230, 5.609 and Subpart K Section 982.516 establishes that as a condition of admission or continued occupancy, the tenant must provide necessary information, documentation and tenant's authorization to verify income eligibility.

Cause

The Programs' officers did not maintain organized files and may not have obtained required documentation to validate the participant's eligibility.

Effect

The Municipality may be qualifying participants that do not meet the eligibility requirements established by federal program.

Recommendation

The Municipality should implement adequate checklist procedures to ascertain compliance with federal regulations regarding eligibility requirements for Section 8 Housing Choice Vouchers.

Questioned Cost

Not Determinable

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-14 (FA) - Special reporting test (L AND E)

Condition

Two files examined (8%) had cancellations of contracts during the fiscal year that were not reported in HUD's Form 50058, (End Participation).

Criteria

24 CFR Subpart D Section 982.158 (a) and (b) establish that the Public Housing Administration (PHA) must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements.

Cause

The condition is the result of ineffective review procedures necessary to assure completeness of special report on contract cancellations.

Effect

The Municipality could be declared in non compliance with the federal regulations as the result of the data processed in HUD Forms-50058, Family Report.

Recommendation

The Municipality should improve review procedures of the information recorded in HUD's Form – 50058, Family Report.

Questioned Cost

None

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-15 (FA) - Reasonable rent test (N)

Condition

In four (17%) participant's files examined, we noted that the annual income was calculated incorrectly which indicates that Tenant's rent determination may either be understated or overstated.

Criteria

24 CFR Subpart K 982.505 and 982.516 determine whether the PHA is documenting the determination that the Tenant Rent and the Payment Standard used to calculate the monthly housing assistance payment for the family. The PHA must conduct a reexamination of family income and composition at least annually.

Cause

The Municipality has no adequate monitoring review process for the Income evidence and calculation to adequately determine the Reasonable Rent procedures during the reexamination process.

Effect

The Program could be paying rent that does not apply to the tenants.

Recommendation

The Municipality should establish review procedures to ascertain that documents of all paying tenants are computed correctly in accordance with federal regulations.

Questioned Cost

Not Determinable

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-16 (FA) - Housing quality standards enforcement test (N) (MW)

Condition

In testing the Housing Quality Standards Enforcement procedures for failed HQS inspections, we found the following situations in six participant's files examined:

1. In one file (17%) examined, the inspection report of the unit failed approval and the correction time to correct failed approval exceeded the maximum time allowed (30 calendar days) and no evidence was found of PHA approved time extension waiver and/or cancellation of payment or contract.
2. In one file (17%) examined, the inspection report failed and the unit was not corrected, therefore, the Owner failed to correct deficiencies. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligations and/or cancellation of contract, within the required 30 calendar days.

Criteria

24 CFR Subpart I 982.404 requires that for units under Housing Assistance Payment (HAP) contracts that fail to meet HQS, the PHA must require the owner to correct any life threatening deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days within a specified PHA-approved extension.

If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Cause

The Program has no effective monitoring review procedures for compliance with federal regulations regarding HQS Enforcement because of lack of personnel.

Effect

The Municipality may be paying HAP payments for housing units that failed to meet program requirements that could affect the quality of life of participants.

Recommendation

The Municipality should emphasize inspections procedures to ascertain that prompt corrective actions surrounding the owners' obligations to meet HQS are taken. If the owner does not comply with federal requirements, **the Municipality** has the obligation to cancel the HAP contract.

Questioned Cost

Not Determinable

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-17 (FA) – Disbursement process (B)

Condition

During our test over expenses recorded in administrative costs, we observed the following exceptions:

- 1) The indirect cost invoice (2003-04) was dated before purchase order date (Check No. 142046, Voucher No. 05-030-059V).
- 2) The invoice was not cancelled with "Paid Stamp" in two voucher payments (Check No. 142046 and 145924, Voucher No. #05-030-059V and #05-030-074V)

Criteria

24 CFR Subpart C 85.20 (b) (6) and OMB Circular A-87 requires that proper documentation of disbursements is necessary to support its allowability and accounting distribution. Article 8.005 of Law "Responsibility over Lawfulness and Accuracy of Expenses" establishes the procedures to be followed in the disbursement process.

Cause

The condition is caused by the lack of effective review procedures necessary to assure completeness in the voucher payments process.

Effect

The Municipality made payments without supporting documents to validate the internal control system established for disbursements.

Recommendation

The Municipality should improve review procedures of the disbursement processing area.

Questioned Cost

None

FEDERAL PROGRAM - SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2005-18 (FA) – Reporting and accounting system (B, L and H) (MW)

Condition

During the tests performed over the reporting and accounting system, we noted the following findings:

Voucher for Payment of Annual Contribution and Operating Statement (HUD Form 52681);

- 1) The report indicated obligations in the amount of \$19,369.63 that were not recorded in the accounting records examined.

Programs' Accounting Records;

- 1) Accounts payable balances recorded at June 30, 2005 did not provide supporting details to verify that the current debts are applied in accordance with the period of availability of federal funds.
- 2) The Program has not made collection procedures for benefits paid to ineligible participants during the year. The accounting records have not recorded tenants/participants accounts receivable.

Criteria

Subpart C, CFR No. 24, Section 85.20 (b) establishes that “the financial management systems of other grantees and sub grantees must meet the following standards:

(2) Accounting records. Grantees and subgrantees must maintain records, which 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.” Article 8.005 of Law “Responsibility over Lawfulness and Accuracy of Expenses” establishes the procedures to be followed in the disbursement process.

Subpart C, CFR No. 24, Section 85.23 (b) establishes that “(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged to costs resulting from obligations of the subsequent funding period.

(b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.”

Cause

The condition results from the lack of adequate review procedures over the accounting records used in the preparation of HUD reports.

Effect

The Municipality could be exposed to non compliance with the federal regulations affecting the data processed in HUD Forms.

Recommendation

The Municipality should strengthen its internal control procedures related to disbursements and accounting records in order to assure that they are properly documented as required by state and federal regulations.

Questioned Cost

Not Determinable

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA 04-01	HUD, CDBG HIV	Lack of Reconciliations Procedures	Monthly Reconciliations of bank accounts and accounting records were established to the CDBG, Section 8 and Ryan White Programs.	None	Condition was corrected
SA 04-02	CDBG CFDA No. 14.218	Federal Cash Transaction Report is Inaccurate	Follow up meetings were established by the Finance and Budget Director to ensure that the amounts shown in the FCTR are consistent with the amounts in the Municipality's books.	None	Condition partially corrected
SA 04-03	CDBG CFDA No. 14.218	Inadequate Cash Management Procedure	Programs personnel have been assigned to the Finance and Budget Department to accelerate the disbursement process and to ensure that funds are requested only when the approval process has been completed.	None	Condition was corrected
SA 04-04	Section 8	Inadequate Cash Management Procedure	Cash management procedures will be implement in the program to guarantee compliance with 24 CFR Sub-part 982.156, 157,158; Part 5, Subpart H, Part 44; HUD Handbook 7220.10G Chapter 20 of Housing Voucher Program Guide Book.	None	Condition was corrected
SA 04-05	Section 8	Amounts due from General Fund	The Municipality has requested to the U.S. Department of Housing and Urban Development a waiver for the repayment of this questioned cost based on the critical financial situation as demonstrated by the Financial Statements for the year ended June 30, 2005. See letter dated February 6, 2006 signed by the Mayor.	\$1,006,523	Condition partially corrected

Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA 04-06	Section 8	Inadequate Documentation of Participants Files Procedures	Fifteen (15) of the sixteen (16) exceptions noted in this finding have been corrected and the other one is still in the process of correction. In order to improve the internal control of compliance with the documentation of participant files, the program supervisor has implemented a two-prong approach quality control checks at two contract stages; prior to Contract Registration and subsequent to Contract Registration.	None	Condition partially corrected
SA 04-07	Head Start	Failure to Meet Full Enrollment level	The Program has completed the improvements in the EL TUQUE Centers, which resolve the difference of 40 children need to meet the full enrollment level.	None	Condition still prevails
SA 04-08	Ryan White	Lack of Formal Accounting Records to Support Federal Financial Reports	The Ryan-White Program has implemented a formal set of books and accounts to maintain complete information with regards to the program assets, liabilities and fund balances, to keep proper accountability.	None	Condition still prevails

Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA-02-21	Loan Guarantee Assistance (Section 08-HUD)	Amount Due from General Fund	<p>The Municipality of Ponce and the US Department of Housing and Urban Development signed an Agreement of Payment consisting of monthly payments of \$50,000 or greater according with the financial condition of the Municipality.</p> <p>As part of the agreement the Municipality have deposited \$500,000 in the LGA bank account, to be used in other project to be approved by HUD></p> <p>The US Department of Housing and Urban Development have accepted an amendment submitted by the Municipality to use the remaining balance amounting to \$1,175,402.23 pertaining to LG-1994 projects that were completed for the improvements costs of the Francisco Montaner Stadium and other related costs.</p>	\$ 1,176,001	Condition partially corrected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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Audit Period: July 1, 2004 – June 30, 2005 Fiscal year 2004-2005

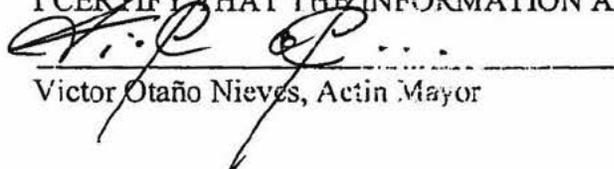
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-01 (FS) Operating Deficit of General Fund (Prior Finding Reported - First reported 1986).</p> <p>Condition: The Municipality's system of internal control relating to the Budgeting function does not provided financial resources in a deficit reserve account for amortize the accrued deficit shows in General Fund (010). The Municipality closed its fiscal year ended June 30, 2004 and 2005 with a deficiency in the general fund equity balance of approximately \$22.2 and 21.3 millions, respectively.</p> <p>Recomendation: Although the Municipality adjust the funds of this governmental fund, we recommend evaluate the adequate provision in deficit reserve account in next budgets for the amortization of public debt as recommend by Law.</p>	<p>Although the Budget for fiscal years ended 2004 and 2005 does not present an appropriation for the accrued deficit amortization of the General Fund, as a part of the management decision making process we made the necessary adjustments to decrease the deficit.</p> <p>The budget of the fiscal years 2004-2005 and 2005-2006 presents a decrease in the amount of appropriations of \$10,646,748 and \$10,974,102, respectively. This measurement resulted in a decrease of \$946,126 in the accrued deficit at year ended June 30, 2005.</p>	<p>Partially Corrected</p>	<p>Mrs. Camille Rivera Muñoz, Finance and Budget Director.</p>	<p>Fiscal year 2008-2009</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Victor Otaño Nieves, Actin Mayor

March - 31 - 06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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Audit Period: July 1, 2004 – June 30, 2005 Fiscal year 2004-2005

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-02 (FS) Accounting Management System</p> <p>Condition:</p> <p>Management had not adopted the GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", in the other governmental funds. Accounting principles generally accepted in the United States required that nonexchange transactions be evaluated in accordance with the provisions of this Statement. The amount by which this departure would affect assets, liabilities and fund balance of the other funds was not reasonably determined. As a result, the net assets as of June 30, 2004, as previously reported, were restated.</p>	<p>The personnel of the Finance and Budgeting Department were not directly involved in the preparation of the Financial Statements for the years before fiscal years 2005. The process of preparation and evaluation of the financial statements was performed by an external consultant with whole control of those activities. In the audit of fiscal year ended June 30, 2005 personnel assigned by the Municipality Finance and Budgeting Department participate directly and together with the external auditors in the whole process of the auditing. Our direct participation in this audit will ensure a better understanding of the accounting and audit practices. Necessary financial resources will be assigned to develop our personnel in all the matters related with those practices.</p>	<p>Partially Corrected</p>	<p>Mrs. Camille Rivera Muñoz, Finance and Budget Director</p>	<p>Fiscal year 2006-2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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Ponce, Puerto Rico 00733-1709

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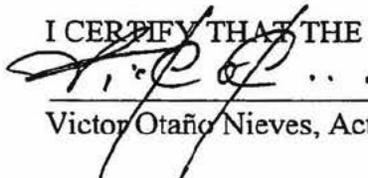
Principal Executive: Hon. Francisco Zavas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. 2005-02 (FS) Accounting Management System</p> <p>Condition: During our tests of the financial accounting system of the Municipality, we noted that the computerized system of accounting does not provide for adequate and effective financial information. As a consequence, the finance and budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, in prior year a debt that was collected by CRIM through property tax advances reports was not included in the long-term debt account and in prior years, some bank accounts and governmental funds, were not closed. Also the capital assets and long-term debt analysis were prepared using the spreadsheet software.</p>	<p align="center">See page 82</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March-31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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Ponce, Puerto Rico 00733-1709

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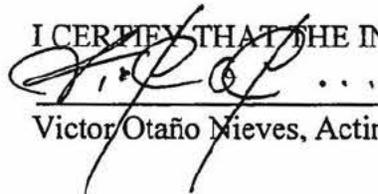
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. 2005-02 (FS) Accounting Management System Condition: The compensated absences debt report prepared for the fiscal year ended June 30, 2005 was not in accordance with GASB Number 16 "Accounting for Compensated Absences". This report was corrected through a suggested audit entry. Federal income related to indirect cost was recorded in the general fund as federal revenue and was also recorded in federal programs as federal revenues. This transaction was subsequently reclassified for financial statements purposes. Recommendation: We recommend financial training to the accountants in charge of the preparation of financial and statistical reports for that the accounting system complies with Law requirement..</p>	<p align="center">See page 82</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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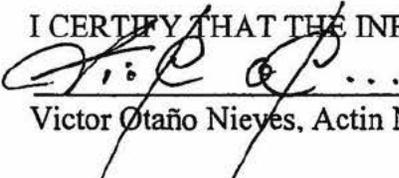
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-03 (FS) Municipal License Tax Revenues Condition: We have performed audit procedures to sixty (60) municipal license tax returns (the tax return) and noted the following exceptions:</p> <p>12) In three cases (5%), the extension form filed by the taxpayer did not establish a waiver period granted and the Municipality officer's signature.</p> <p>13) In two taxpayer files examined (3%), the tax return for the fiscal year 2005-06 was not available.</p> <p>14) In three taxpayer files examined (5%), the tax return for the fiscal year 2005-06 was not sign and date by the tax payer.</p> <p>15) In two taxpayer files examined (3%), the tax return was not filed with the required audited financial statements.</p> <p>16) In one taxpayer file examined (2%), the tax return was missing.</p>	<p>The Collection's Office was restructured during fiscal year ended 2005. Appropriate personnel was assigned to improve the whole system. Those personnel will be in charge of the whole process instead of our practice for previous years to contract an external consultant for those functions. As explained in Finding two the Municipality change our strategy to contract external consultants and we believe that develop our own personnel is the right decision to improve the Municipality accounting procedures.</p>	<p>Partially Corrected</p>	<p>Mrs. Camille Rivera Muñoz, Finance and Budget Director</p>	<p>Fiscal year 2006-2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



 Victor Otaño Nieves, Actin Mayor

March-31-06

 Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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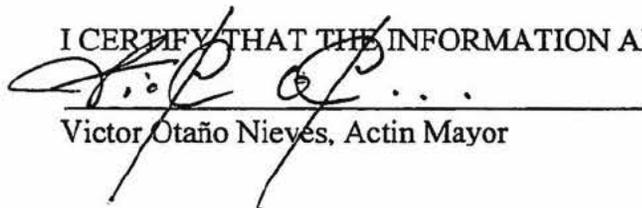
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. 17) In two taxpayer files examined (3%), the tax return does not include a breakdown of revenue by municipality required. 18) There is no evidence on three taxpayer files (5%) of tax exemption granted. 19) In two taxpayer files examined (3%), other income was not taxable. 20) In four taxpayer files examined (7%), the tax return was not stamped when received indicating the filing date. 21) In five taxpayer files examined (8%), we noted that the revenues reported in the audited financial statements did not reconcile to the tax returns filed. 22) The accounts receivable from municipal license taxes report submitted with the budget for the fiscal year 2005-06, has some errors, such as; tax returns liabilities imposed to taxpayers, which were eliminated by the system, interests and surcharges applied to taxpayers that filed tax returns correctly and on time.</p>	<p align="center">See page 85</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Victor Otaño Nieves, Actin Mayor

March-31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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Ponce, Puerto Rico 00733-1709

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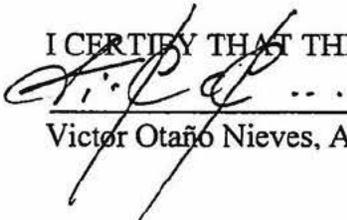
Principal Executive: Hon. Francisco Zavas Seiyo, Mayor

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

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont.</p> <p>Recommendation:</p> <p>We recommend training to the collectors for compliance of Regulations and initiate the procedures established by Law in the resources not collected above indicated.</p>	<p align="center">See page 85</p>			
<p>2005-04 (FS) CAPITAL FIXED ASSETS, WORK OF ART AND HISTORICAL TREASURES</p> <p>Condition: <i>Capital Assets:</i></p> <p>In the evaluation of real property records, we noted three capital assets that did not have evidence of title of property. These capital assets are Municipal Library, Public Car Terminal and the Community Center Concha Clavel.</p>	<p>As part of the procedures to implement GASB no. 34 the Municipality contracted and external consultant to direct all the procedures to comply with the regulation. The result of the strategy is that external consultant creates a parallel accounting system that never was integrated to our own accounting system.</p>	<p align="center">Partially Corrected</p>	<p align="center">Mrs. Camille Rivera Muñoz, Finance and Budget Director</p>	<p align="center">Fiscal year 2006-2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

31-March-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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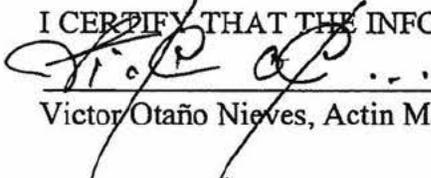
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. 2005-04 (FS) CAPITAL FIXED ASSETS, WORK OF ART AND HISTORICAL TREASURES</p> <p>Condition: <i>Works of art and historical treasures:</i> In the evaluation of the implementation procedures established for financial statements prepared under GASB number 34, we noted that the Municipality does not have formal procedures established for the use and disposition of works of art and historical treasures. Also, Valentin Tricoche Painting was not recorded in the subsidiary property records.</p> <p>Recommendation: We recommend establish a formal public policy over the use of works of art and historical treasures assets and initiate the procedures for obtain the titles of properties of the capital assets.</p>	<p>Our Office of Real Property does not improve their recording process of all municipality property with the result that our property subsidiary was incomplete. This is another justification for our new strategy to develop our own personnel Municipality to improve this process.</p> <p>To improve our property related procedures we plan to submit a proposal to the Municipality Legislature to regulate the acquisition and disposal of all municipality property.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

march-31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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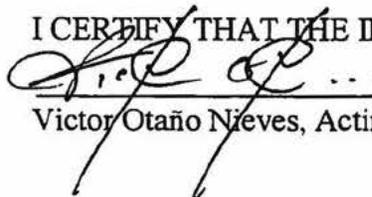
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>FEDERAL PROGRAM: HEAD START (CFDA No. 93.60 2005-01 (FA) DISBURSEMENT PROCESS</p> <p>Condition</p> <p>We have performed audit procedures to forty (40) vouchers of payments and noted the following exceptions:</p> <p>4) A supplier of transportation submitted an invoice for \$558 dated August 18, 2004 for services rendered for the month of August 2004 and it was paid totally without explanation for the advance billing. The voucher payment number was 05200021.</p>	<p>We have an established process where the center's teacher certifies that the transportation service was fully given for the month billed. The term "monthly" means the operation period for the center; August 2004 was a period of 13 operation days, for the school period the months don't have 30 days, just is the operation's center days. As a matter of fact, the payment check #16974 was issue on September 01, 2004. Since May 2006 we are going to allocate the monthly payment as the service given.</p>	<p>Partially corrected.</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>Mrs. Damaris Suliveres /Accounting Supervisor</p>	<p>May 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March -31-06
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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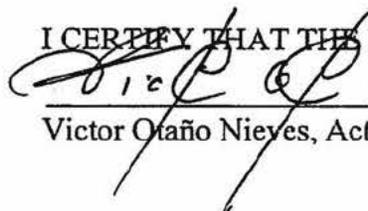
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60 2005-01 (FA) DISBURSEMENT PROCESS</p> <p>5) The voucher payments number 05200021 and 05200835 have no evidence of competition process. In addition, voucher payment number 05200671 has two quotations that did not provide physical and postal address of the vendor in it.</p>	<p>Voucher payment 05200021 was for Transportation Services, and voucher 05200835 was for Mental Health Contractual.</p> <p>These two suppliers are been given their services to Ponce Head Start for 15 to 12 years. We are keeping the Basic Rules for the Autonomous Municipality of Ponce, which basically apply the rule for the professional services contracted, establishing that we do not have to get three quotations; however this rule do not applied for federal programs funds. All of our Contractual Services are not being in a competition process, because of the difficult contractual matters. But from this time ahead we are going to open the competition process, for future contractual needs.</p>	<p>Partially Corrected</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>Mrs. Damaris Suliveres/ Accounting Supervisor</p>	<p>In the next professional services need.</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60 2005-01 (FA) DISBURSEMENT PROCESS</p> <p>6) Some checks for vendors' payments were picked-up in the payment office of the Municipality by personnel of Head Start, who are not authorized.</p> <p><u>Recommendation:</u> We recommend establish an effective controls over procurement process and suppliers' checks pick up.</p>	<p>When the Payer Officer or the Alternate Payer Officer, are not available to pick up checks at the Payment Division in the City Hall, the personnel Program called the City Hall and have permission to send other Head Start employee to pick up the checks. This situation is not usual, but it happens few times. There's not a written authorization, only by phone. From now on, we are going to have written authorization from the Head Start Director if we have to send other employee to pick up the checks.</p>	<p align="center">Corrected</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>Mrs. Damaris Suliveres/ Accounting Supervisor</p>	<p align="center">March 2006</p>

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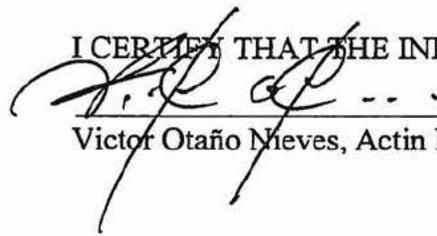
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>FEDERAL PROGRAM: HEAD START (CFDA No. 93.60 2005-02 (FA) CASH MANAGEMENT</p> <p>Condition:</p> <p>During our audit, we observed that three checks out of twenty-one examined, were sent to the vendors after fifteen days that these were picked-up from the payment office of the Municipality. Cash balance as of June 30, 2005 was \$101,480 as compared to \$14,565 as of June 30, 2004.</p> <p>Recommendation:</p> <p>We recommend to Municipality take the actions necessary over the lack of procedures in this area for compliance of federal requirement.</p>	<p>Few checks were held in our office' security box, waiting for the suppliers to pick them up as a requirement of the suppliers, because they have some missed checks before, but they stayed too long to pick them up.</p> <p>So we established that we only going to have a check in our office one day, if the supplier doesn't come to pick it up, we going to send it by mail.</p>	<p align="center">Corrected</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>Mrs. Damaris Suliveres/ Accounting Supervisor</p>	<p align="center">March 2006</p>

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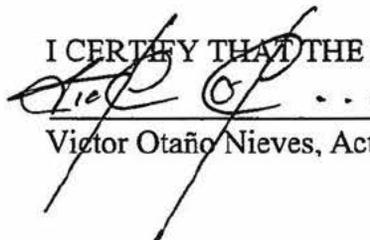
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>Condition:</p> <p>12) Twenty-five files examined did not include a family income certification statement signed by Head Start's officer.</p>	<p>3. During the Program Year 2004-05 the Head Start social workers put their initials in the top of the first page of the Social History where indicated the number of members in the family, annual income and the income as per Poverty Level Table. This procedure was signed by the Policy Council and the Governing Board, and it was part of our income verification process. These were the mathematics computations the social worker make, in accordance with the evidence brought by the family. Then, this information is send to the Selection Enrollment Committee. During the Program Year 2005-06 we revised the procedures, and we have an Eligibility Certification Sheet, where the social worker certifies the documents received, sign and write the License number in the Certification.</p>	<p align="center">Corrected</p>	<p align="center">Mrs. Maria de los A. Torres/ Head Start Director</p> <p align="center">And</p> <p align="center">Mrs. Brunilda Rivera/ Family and Community Manager</p>	<p align="center">March 2006</p>

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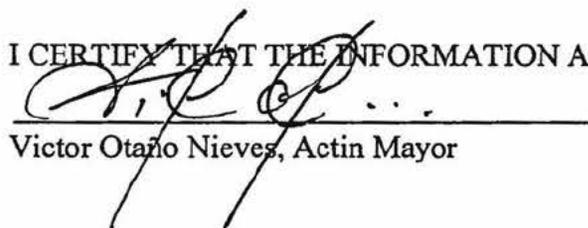
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>13) Four files examined did not include evidence of the evaluation of family income for a second participating program year.</p>	<p>4. We are coordinating a meeting with the Social Workers to re-orientate about the importance of actualize the documents in the files of the participants that continuing having services the next year.</p> <p>We created a procedure to actualize the files of the participants that continuing having services the next year.</p> <p>We are going to have a meeting with the Social Workers to discuss and facilitate copies of the procedure.</p> <p>Periodic visits to the center to revise the files and to be sure if the establish procedure has been implemented.</p>	<p align="center">Corrected</p>	<p align="center">Mrs. Maria de los A. Torres/ Head Start Director</p> <p align="center">And</p> <p align="center">Mrs. Brunilda Rivera/ Family and Community Manager</p>	<p align="center">March 2006</p>

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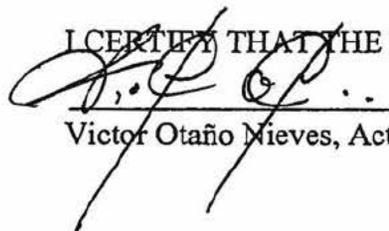
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>14) One participant was included in the Over Income Enrollment Report.</p>	<p>5. The family was evaluated at first with the payroll check voucher, and then the Social Worker asked for the W-2 Income Voucher of the family to corroborate the family income. The W-2 form presents an increase income brought them over income level, but we forgot to change the income in the file, neither included this participant in the Over Income Enrollment List. Even if this participant would be included in the Over Income Enrollment List, we still under the 10% of the Over Income Enrollment permitted by the federal agency.</p>	<p align="center">Corrected</p>	<p align="center">Mrs. Maria de los A. Torres/ Head Start Director</p> <p align="center">And</p> <p align="center">Mrs. Brunilda Rivera/ Family and Community Manager</p>	<p align="center">March 2006</p>

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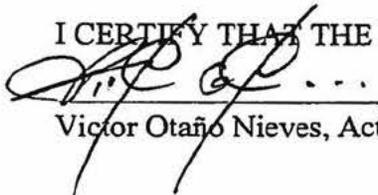
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>15) Two participants did not provide evidence of the medical and dental evaluation as required by the program. Also, the dental evaluation form does not provide a space to fill the license number of the dentist.</p>	<p>6. The Program is coordinating meetings with the interdisciplinary team to emphasize the importance to encourage the parents to bring the medical and dental evaluation the first day of class. Give oral and written orientation to parents to comply with requirements of medical and dental evaluation for attendance the child's entry into the Program. Follow up to the parents who have not completed these evaluation through: telephone calls, home visits, written notices, coordination for transportation to assist to medical and laboratories appointments. Meeting with the interdisciplinary team for follow up and with the Department of the Family. Review the dental evaluation to include a blank for the dentist license.</p>	<p align="center">Corrected</p>	<p align="center">Mrs. Maria de los A. Torres/ Head Start Director</p> <p align="center">and</p> <p align="center">Iris Martinez/Health and Special Needs Coordinator</p>	<p align="center">March 2006</p>

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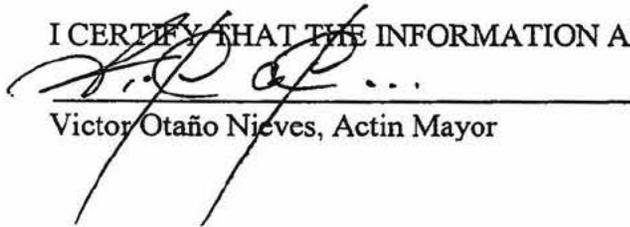
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60 2005-03 (FA) PARTICIPANTS AREA</p> <p>16) Only two progress evaluations were made to the infants during the program year. The progress evaluation form for the infants does not provide a space for the parent's signature after the document is discussed with them.</p>	<p>7. The Program is planning meetings with the educational staff, to make sure through re orientations and frequent follow up by the Educational Supervisor, that the assessment for the infants is been administered in accordance of their age. At the present, when the results of the developmental evaluation are discuss with the parents, a minute is written and an attendance form is prepare with the signature of the programs' staff and parents at the meeting. Due to recommendation of the auditor we prepared a form that evidence the orientation with dates and signatures.</p>	<p>Corrected</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>and</p> <p>Mrs. Iris Ocasio/Child Development Manager</p>	<p>March 2006</p>

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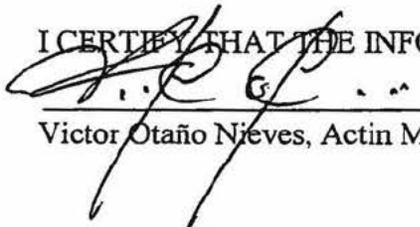
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>was 1,680, which results in a cost per child of \$6,913.75. Therefore, the Municipality expended \$361,164 in excess, determined as follows; $\{(\\$6,913.75 \times 140 \text{ children}) - \\$606,761 \Rightarrow$ Surplus reported in the financial status report dated March 3, 2005}.</p>	<ul style="list-style-type: none"> • (A,B,C,D,E) - 100 children • Interamerican University - 40 children <p><u>On August 2005, these centers started to provide services to children, and the Program covered the full enrollment.</u></p> <p>In the March 5, 2005 the Federal expenses reported for Head Start was \$11,615,097 the enrollment level proposed was 1,680 which result in cost per child of \$6,913.75. $\{(\\$6,913.75 * 140 \text{ children}) = \\$967,925.00 - \\$606,761.00 \Rightarrow$ Surplus reported in FSR dated March 5, 2005} However, in Head Start appears an amount used without covers of</p>			

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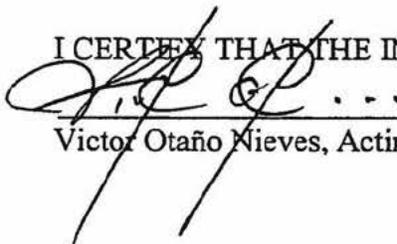
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-03 (FA) PARTICIPANTS AREA</p> <p>Also, in seven out of eleven centers examined, the monthly average daily attendance rate was below 85 percent. This situation has the effect of decreasing the Head Start funds for meal payments. As a consequence, the Child Care Food Program would not be responsible to cover up these payments.</p> <p><u>Recommendation:</u></p> <p>We recommend to Municipality take the actions necessary over the lack of effective procedures in this area for compliance of federal requirement.</p>	<p>\$361,164.00, the Municipality of Ponce Grantee gave a non-federal cash contribution of \$578,926.00 to cover this amount used, as per written request from HHS /Region II dated November 8, 2005</p> <p>The most common reason for absent in these centers was illness. We will continue to orientate parents in the importance of the attendance of their children, and re-orientated educational staff in strategies that promote fully attendance.</p>	<p>Corrected</p> <p>We are keeping our procedures to investigate the absentees to comply with the 85% of the daily attendance</p>	<p>Maria de los A. Torres/ Head Start Director</p> <p>and</p> <p>Mrs. Iris Ocasio/Child Development Manager</p>	<p>March 2006</p>

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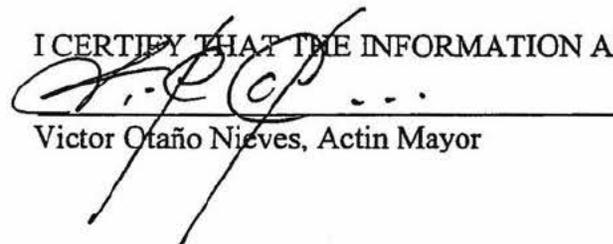
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<p>FEDERAL PROGRAM: HEAD START (CFDA No. 93.60) 2005-04 (FA) MATCHING REQUIREMENT</p> <p>Condition:</p> <p>During our test of matching process, we noted that the Head Start Program uses a facility rent study to calculate and record in-kind rent instead an external appraisal valuation. The Program uses a value of \$3.00 per square foot in its study.</p> <p>Recommendation:</p> <p>We recommend to Municipality take the actions necessary over the lack of adequate procedures in this area for compliance of federal requirement.</p>	<p>Most of the Head Start Centers are properties from the Grantee, Municipality of Ponce. These properties have about 40 years old, so we don't have any external appraisal evaluation to calculate the rent for them.</p> <p>We used \$3 dollars plus square foot to apply the monthly rental. This equation is been accepted for the Regional Offices HHS and all the single and external audits we had before.</p> <p>From this time ahead the Municipality of Ponce is going to obtained these appraisal evaluations from external resources.</p>	<p>Partially Corrected</p>	<p>Maria de los A. Torres/ Head Start Director</p> <p>and</p> <p>Mrs. Camille Rivera/ Municipality of Ponce Finance and Budget Director</p>	<p>FY 2006-2007</p>

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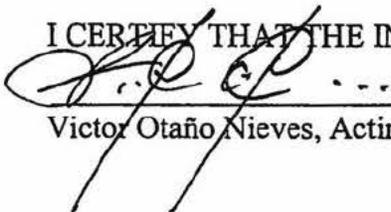
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<p>FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-05 (FA) CONTRACT PROVISIONS</p> <p>Condition:</p> <p>We have performed audit procedures to six contracts and noted the following exceptions:</p> <p>5) Two contracts did not have evidence of competition process.</p>	<p>The contracts for Transportation Services and Mental Health are the two suppliers without evidence of competition. These providers have been given their services to Ponce Head Start for 15 to 12 years, respectively. The HS Program is keeping the local regulation, "Basic Rules for the Autonomous Municipality of Ponce", which basically apply the rule for the professional services contracted, establishing that we do not have to get three quotations; however this rule do not applied for federal programs funds. All of our Contractual Services are not being in a competition process, because of the difficult contractual matters.</p>	<p align="center">Corrected</p>	<p align="center">Mrs. Maria de los A. Torres/ Head Start Director</p>	<p align="center">In the next professional services need.</p>

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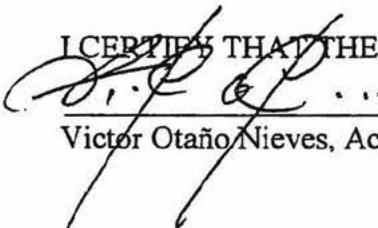
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-05 (FA) CONTRACT PROVISIONS</p> <p>Condition:</p> <p>6) Two contracts did not have evidence of being subject to a suspension and debarment certification process.</p>	<p>But from this time ahead we are going to open the competition process, for future contractual needs.</p> <p>2. Most of our suppliers come from the Municipality Public Bid Process. This process fully complies with the procurement terms. In the cases of the Professional Services Contracted we ask for the documents require for the Municipality.</p> <p>Since 2004, we implemented a process to verify that these Contractual Services were not included in the Debarment and Suspension List of the</p>	<p>Partially Corrected</p>	<p>Mrs. Maria de los A. Torres/ Head Start Director</p> <p>Damaris Suliveres/ Head Start Accounting Supervisor</p>	<p>Next fiscal year (2006-2007)</p>

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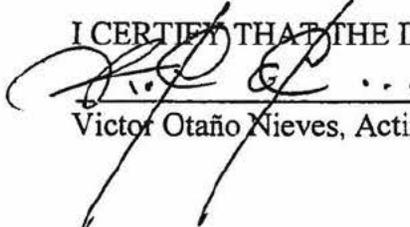
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-05 (FA) CONTRACT PROVISIONS</p> <p>7) Five contracts did not include a clause for providing access to General Accounting Office or other federal agency to the books, documents, and others supporting evidence.</p>	<p>Federal Government, using the Internet address: http://epls.arnet.gov./index.html or by requiring information from the Division of External Resources of the Puerto Rico Justice Department. However, we didn't obtain a certification from the system.</p> <p>3. Our contracts comply with the Municipality of Ponce and the State requirements for contracting, we never received a requirement to include a clause for access to GAO or other federal agency to intervene in books, documents, and others. We do include a clause in the contracts for</p>	<p align="center">Pending</p>	<p align="center">Maria de los A. Torres/ Head Start Director</p> <p align="center">and</p> <p align="center">Lic. Annette Rodriguez/ Municipality of Ponce's Legal Division Director</p>	<p align="center">Next fiscal year (2006-2007)</p>

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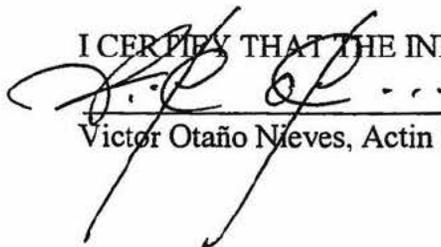
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Contact Person: Mrs. Camille H. Rivera Muñoz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-05 (FA) CONTRACT PROVISIONS</p> <p>8) The transportation contract did not provide a clause for indicating new transportation regulations applicable to the service contracted.</p> <p><u>Recommendation:</u></p> <p>We recommend to Municipality take the actions necessary over the contract procedures in this area for compliance of federal requirement.</p>	<p>renovations about the David Bacon Act, asking for payroll registers and employces' interviews. We are going to ask for a consulting from the Municipality's Legal Division to see how we could include a clause in all of our contracts that assure the compliance of this requirement.</p> <p>4. We are going to ask for a consulting from the Municipality's Legal Division to see how we could include a clause in all of our contracts that assure the compliance of this requirement. However, our transportation suppliers took the transportation training to comply with the new transportation regulation.</p>	<p>Partially corrected</p>	<p>Maria de los A. Torres/ Head Start Director</p> <p>And</p> <p>Lic. Annette Rodriguez/ Municipality of Ponce Legal Division Director</p>	<p>Next fiscal year (2006-2007)</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

CORRECTIVE ACTION PLAN

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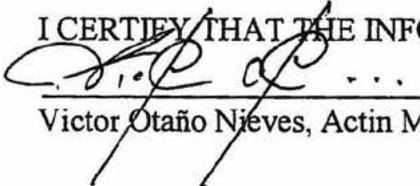
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-06 (FA) ACCOUNTING MANAGEMENT SYSTEM</p> <p>Condition:</p> <p>In the review of the accounting program records, we detected the following:</p> <p>3) The Financial Status Report was submitted on March 3, 2005. The amount included as a total recipient share (net outlay) does not reconcile with the amount recorded in the accounting records by \$120,059. However, the Municipality complied with matching level required for the federal funds used.</p>	<p>The Financial Status Report revised from March 3, 2005 was a preliminary report for period 07/01/2004 to 12/31/2004. The amount revised was the one applied for non-federal contributions (In-Kind and Cash Contributions). In the next revised FSR submitted on March 17, 2004 the amount reported on the recipient share of net outlay was the same as of the financial accounting records \$4,273,181. In the FSR's for this period we made an adjustment to reduce the unobligated balance due to non federal cash contributions not recorded in previous periods.</p>	<p align="center">Corrected</p>	<p align="center">Maria de los A. Torres/ Head Start Director</p> <p align="center">and</p> <p align="center">Mrs. Damaris Suliveres/Head Start Accounting Supervisor</p>	<p align="center">2005-06</p>

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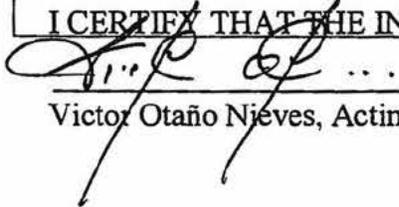
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<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-06 (FA) ACCOUNTING MANAGEMENT SYSTEM</p>	<p>The HHS office sent an opinion on November, 2004 to reverse the adjustment made, and to register the adjustment as a nonfederal cash contribution from the grantee. We did so, and sent a final revised FSR to Region II HHS Office.</p>			
<p>4) The general ledger has no available current funds to cover current debts at June 30, 2005. As a consequence, the program has an account receivable from the Municipality for \$1,235,582.</p> <p>Recommendation:</p> <p>We recommend to Municipality take the actions necessary over this situation in coordination with Region II.</p>	<p>Since 2002 we are having problems with the availability of cash at the end each period to cover the debts. Due to few situations, like: (1) the use of head start operating funds to cover early head start renovations (albergue de niños), (2) received reprograms funds from previous years that impact the operating funds for current years. This transaction reflects at the payment management system less authorized funds for previous years that obligate us to charge the current year operation funds with</p>	<p>Partially corrected</p>	<p>Mrs. Camille Rivera/Municipality of Ponce Finance and Budget Director</p>	<p>Fiscal Year (2006-2007)</p>

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Victor Otaño Nieves, Actin Mayor

March - 31 - 06
Date

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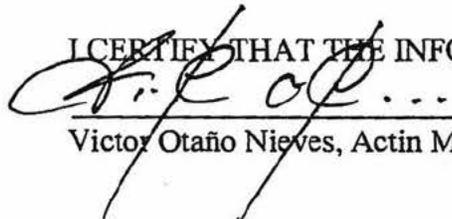
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	<p>domino effect that caused to have less availability of cash to cover current debts. We decided, that we are not going to request reprogram funds for the closing year, to neutralize the diminishing of authorized funds at the payment management system.</p> <p>Also, the Municipality of Ponce sent a letter to the Regional Office HHS, dated November 8, 2005 presenting a non-federal cash contribution to the Program in the amount of \$578,926.00. In addition, the Municipality of Ponce paid Other Deductions of Payroll for the month of December 2005 in the amount of \$236,352.00 to the Head Start and Early Head Start Programs. This effect means a reduce in the accounts receivable as follow:</p>			
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Victor Otaño Nieves, Actin Mayor

March-31-06
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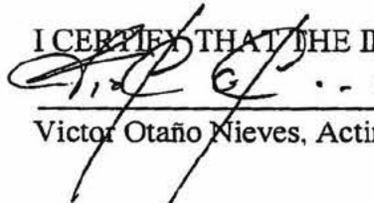
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Cont. FEDERAL PROGRAM: HEAD START (CFDA No. 93.60)</p> <p>2005-06 (FA) ACCOUNTING MANAGEMENT SYSTEM</p>	<p align="center"> <u>\$217,762.00</u> <u>236,352.00</u> <u>454,114.00</u> </p> <p>Pending amount of <u>\$781,468.00</u> (\$1,235,582 – 454,114.00=\$781,468.00)</p> <p>Year to year the Municipality of Ponce's Grantee contributes more than the 20% require for the Federal Agency as a matching cost, it's about 30% to 40% in non federal cash contributions</p>			

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Victor Otaño Nieves, Actin Mayor

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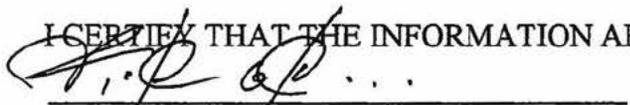
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-07 (FA) CENTER FACILITIES</p> <p>Condition:</p> <p>During our test of six centers, we noted the following exceptions:</p> <p>6) <u>Hogar Infantil I</u> - Undercover electric wires in mini split unit, without emergency light and damaged hackle in outdoor space.</p>	<p>Since August 2005 the Program has establish maintenance plan to assure that the centers are in compliance with the Health and Security Federal Regulation. This initiative is going to be coordinate with the Ongoing Monitoring Team.</p> <p>1. This center has emergency light installed in the hall, but not in the classrooms. We order to install them in the classroom March 2006. The damaged hackle was removed immediately.</p>	<p>Corrected</p>	<p>Mrs. Maria de los A. Torres/Head Start Director Mr. Wilfredo Rodriguez/General Services Supervisor</p>	<p>March 2006</p>

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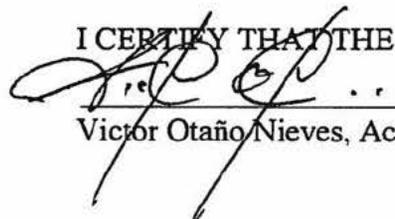
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CONDITION AND I	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
7) <u>Tuque II</u> – Emergency light did not turn on, ceiling filtration in children's restroom and hazardous objects in outdoor spaces such as exposed metal tube, construction block in exit to playground and obsolete equipment.	2. We were doing some improvements in these three centers, Tuque I, II, III, but we haven't finished yet. The emergency lights were installed immediately. All the construction objects that threat the children safety were removed immediately.	Corrected	Mrs. Maria de los A. Torres/Head Start Director Mr. Wilfredo Rodriguez/General Services Supervisor	March 2006
8) <u>Perla de Caribe II</u> – Emergency light does not turn on, obsolete equipment in outdoor space and window metal screen in children's restroom.	3. We installed the emergency lights immediately We removed the obsolete equipment from playground. All the windows metal were removed from the children bathroom immediately	Corrected	Mrs. Maria de los A. Torres/Head Start Director Mr. Wilfredo Rodriguez/General Services Supervisor	March 2006

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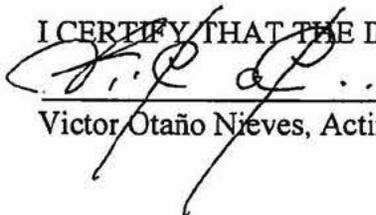
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
9) <u>Paraiso</u> - No emergency light, storage room in each of the children's restroom is open, water leak in the kitchen sink, and hose at the playground area.	4. We installed the emergency lights immediately. The Education Supervisor re-oriented the teacher about the procedures to store the cleaning materials in a safe and orderly fashion.	Corrected	Mrs. Maria de los A. Torres/Head Start Director Mr. Wilfredo Rodriguez/General Services Supervisor	March 2006
10) <u>León I</u> - No emergency light and smoke detector, electric outlet without security covers, cleaning material in children's restroom and hazardous objects in outdoor spaces such as obsolete equipment, three holes in playground and gas line disjoined of exterior wall. <u>Recommendation:</u> We recommend to Municipality take the actions necessary over the lack of effective procedures in this area for compliance of federal requirement.	5. We installed the emergency lights, smoke detector and electric covers. The Education Supervisor re-oriented the teacher about the procedures to store the cleaning materials in a safe and orderly fashion. The Maintenance brigade was working in the playground area to correct this situation.	Corrected	Mrs. Maria de los A. Torres/Head Start Director Mr. Wilfredo Rodriguez/General Services Supervisor	March 2006

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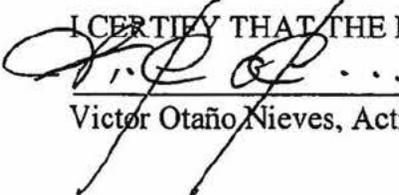
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA 93.914)</p> <p>2005-08 (FA) ACCOUNTING MANAGEMENT SYSTEM</p> <p>Condition: The Municipality has no an effective accounting system procedures to ensure the timely and accurate reconciliation of the accounting records maintained by the program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial data is maintained in electronic spreadsheets.</p>	<p>The Municipality will establish budget accounts for all kind of expenditures separately to be used by the Program and the Finances Department. All the assets and liabilities will be maintained in a complete set of books to be conciliated between the Program and the Finance Department every month.</p>	<p>Pending</p>	<p>Both the Finances and Ryan White Program Administrator (Mrs. Camille Rivera Muñoz and Rosa Vélez)</p>	<p>July 1, 2006</p>

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Victor Otaño Nieves, Actin Mayor

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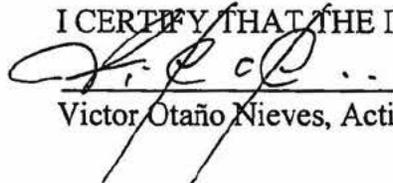
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Recommendation:</p> <p>The Municipality should implement monthly reconciliations of the transactions recorded in the program with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the information reconciled.</p> <p>2005-09 (FA) CASH MANAGEMENT</p> <p>Condition:</p> <p>During our audit of programs' bank reconciliations, we noted that the average cash balance in the months of July, August and September showed higher balances, which represents 15%, 23% and 22%, respectively of total cash amount balances.</p>	<p>The Municipality has established a System of Cash received goes out. The Cash Payment Request is made at the same time the checks are done.</p>	<p>Corrected</p>	<p>Ms. Rosa Vélez Ryan White Program Administrator</p>	<p>January 2006</p>

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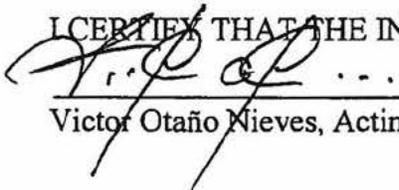
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Recommendation:</p> <p>We recommend to Municipality take the actions necessary over the lack of effective procedures in this area for compliance of federal requirement.</p> <p>2005-10 (FA) PARTICIPANT EARMARKING LEVEL</p> <p>Condition:</p> <p>The Program did not provide adequate supporting documents regarding expenditures and percentage used to provide services to women, infants, children and youth, in order to determine if earmarking reported are reasonable.</p> <p>Recommendation:</p> <p>We recommend to the program management to exercise an adequate revision and supervision for reports of the agencies and request to</p>	<p>The Municipality is running the installation process of the Care Ware Software to be used by all the providers and by the Ryan White Program itself.</p>	<p>Partially Corrected</p>	<p>Ms. Rosa Vélez, Ryan White Program Administrator</p>	<p>During Program Year 2006-07</p>

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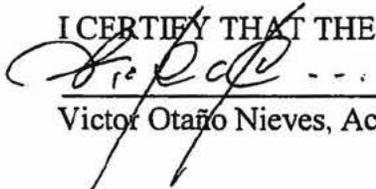
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<p>agencies, if necessary, segregate the population served by categories and cost for compliance with federal regulations.</p> <p>2005-11 (FA) PROCUREMENT PROCEDURES</p> <p>Condition:</p> <p>Certification for Suspension and Debarment were not included in the proposal documents submitted by agency service providers. In addition, the Proposal Development Guidelines for Request of Funds does not include the request of federal assurance certifications.</p>	<p>The Municipality will review the proposal submission procedures in order to ask all participants certifications of suspension and debarment.</p>	<p>Pending</p>	<p>Finances and Ryan White Program Administrator (Mrs. Camille Rivera and Ms. Rosa Vélez)</p>	<p>July 1, 2006</p>

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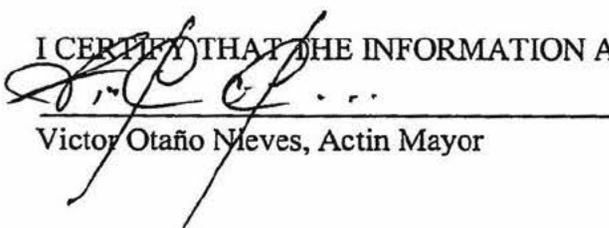
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Recommendation:</p> <p>We recommend to the Municipality request the certifications of suspension and debarment to the agencies service providers and verify the entity in the Excluded Parties List System Website.</p>				

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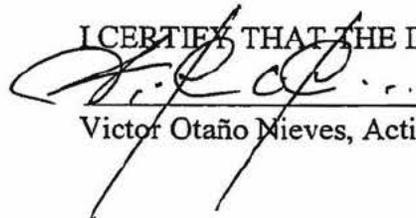
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-13 (FA) PARTICIPANT FILES</p> <p>Condition:</p> <p>We have performed an eligibility test to twenty five participants' files and, accordingly observed the following exceptions:</p> <p>13) Two files examined (8%) did not include evidence of annual income for the evaluation of the selection process made by the program.</p> <p>14) Five files examined (20%) did not include Sworn Statements, which specified that the participant did not have Value of Assets.</p>	<p>- Both files were corrected during the FY 2005-2006 Recertification.</p> <p>- Four files were corrected during FY 2005-2006 Recertification.</p>	<p>Corrected</p> <p>One file pending</p>	<p>Jorge L. Morales, Director DEC</p> <p>Jorge L. Morales, Director DEC</p>	<p>12 April 2006</p>

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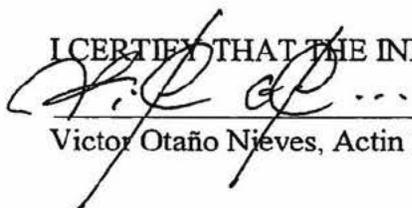
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
15) Two files examined (8%) did not include evidence of family department certification (PAN).	- Both files were corrected during the FY 2005-2006 Recertification.	Corrected	Jorge L. Morales, Director DEC	
16) One file examined (4%) did not include evidence of family members' birth certificates.	- Family will be contacted to provide required document.	Pending	Jorge L. Morales, Director DEC	12 April 2006
17) Three files examined (12%) did not include evidence of family members' social security number.	- Families will be contacted to provide required document.	Pending	Jorge L. Morales, Director DEC	12 April 2006
18) Two files examined (8%) did not include evidence of verification of studies by family child.	- Families will be contacted to provide required document.	One file corrected, one pending	Jorge L. Morales, Director DEC	12 April 2006
19) Two files examined (8%) did not include evidence of ASUME certification.	2 Family will be contacted to provide required document.	One file corrected, one pending	Jorge L. Morales, Director DEC	12 April 2006

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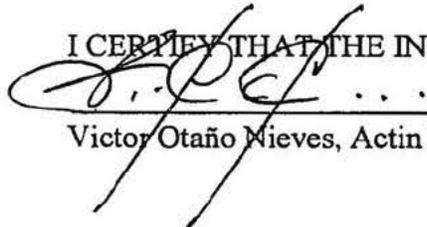
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
20) Two files examined (8%) did not include evidence of good behavior certificate for family members of 18 years old and up.	- Both files were corrected during the FY 2005-2006 Recertification.	Corrected.	Jorge L. Morales, Director DEC	12 April 2006
21) Three files examined (12%) did not include evidence of Sworn Statement that identified the civil status.	Family will be contacted to provide required document.	Two file corrected, one pending Corrected	Jorge L. Morales, Director DEC	12 April 2006
22) One file examined (4%) did not include evidence of US citizenship declaration form.	- Family will be contacted to provide required document.	Pending.	Jorge L. Morales, Director DEC	12 April 2006
23) Three files examined (12%) did not include evidence of Municipal Revenue Collection Center Certification (CRIM).	- Families will be contacted to provide required document.	Pending	Jorge L. Morales, Director DEC	12 April 2006
24) One file examined (4%) did not include evidence of Authorization for	- Family will be contacted to provide required document.	Pending	Jorge L. Morales, Director DEC	12 April 2006

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

CORRECTIVE ACTION PLAN

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133
Audit Period: July 1, 2004 – June 30, 2005 Fiscal year 2004-2005

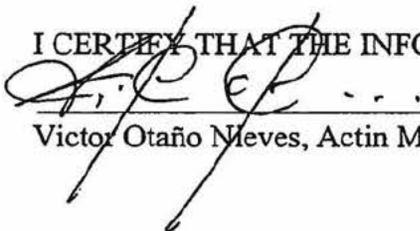
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Release of Information/Privacy Act Notice.</p> <p>Recommendation:</p> <p>The Municipality should implement adequate checklist procedures to ascertain compliance with federal regulations regarding eligibility requirements.</p>	<p>The Program implemented a checklist to insure compliance on March 2005.</p> <p>Will implement a verification system were the supervisory staff will inspect every file prior to contract execution</p>	<p align="center">Pending</p>	<p>Jorge L. Morales, Director DEC</p>	<p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

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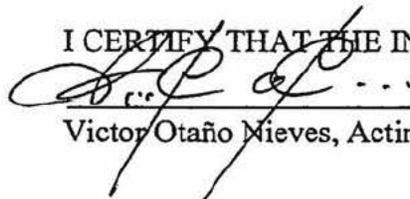
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-14 (FA) SPECIAL REPORTING TEST</p> <p>Condition:</p> <p>Two files examined (8%) had cancellations of contracts during the fiscal year that were not reported in HUD's Form 50058, (End Participation).</p> <p>Recommendation:</p> <p>The Municipality should improve review procedures of the information recorded in the Form HUD – 50058, Family Report.</p>	<p>An End Participation 50058 was corrected for one file.</p> <p>Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.</p>	<p>One file pending</p> <p>Pending</p>	<p>Jorge L. Morales, Director DEC</p> <p>Jorge L. Morales, Director DEC</p>	<p>12 April 2006</p> <p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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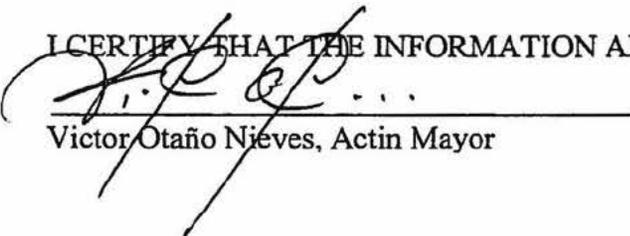
Principal Executive: Hon. Francisco Zavas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-15 (FA) REASONABLE RENT TEST</p> <p>Condition:</p> <p>In four (17%) participant's files, we In four (17%) participant's files examined, we noted that the annual income was calculated incorrectly which indicates that Tenant's rent determination may either be understated or overstated.</p> <p>Recommendation:</p> <p>The Municipality should establish review procedures to ascertain that documents of all paying tenants are computed correctly in accordance to federal regulations.</p>	<p>Three files were corrected during the 2005-2006 Recertification</p> <p>Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.</p>	<p>One file pending</p> <p>Pending</p>	<p>Jorge L. Morales, Director DEC</p> <p>Jorge L. Morales, Director DEC</p>	<p>12 April 2006</p> <p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

CORRECTIVE ACTION PLAN

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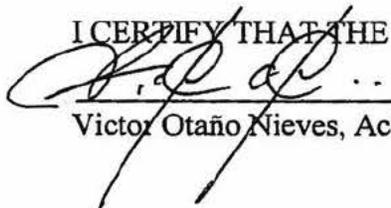
Principal Executive: Hon. Francisco Zavas Seiyo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-16 (FA) HQC ENFORCEMENT TEST</p> <p>Condition:</p> <p>In testing the Housing Quality Standards Enforcement procedures for failed HQS inspections, we found the following situations in six participant's files examined:</p> <p>3. In one file (17%) examined, the inspection report of the unit failed approval and the correction time to correct failed approval exceeded the maximum time allowed (30 calendar days) and no evidence was found of PHA approved time extension waiver and/or cancellation of payment or contract.</p>	<p>The file will be reviewed to determine the appropriate corrective action</p>	<p>Pending</p>	<p>Jorge L. Morales, Director DEC</p>	<p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

CORRECTIVE ACTION PLAN

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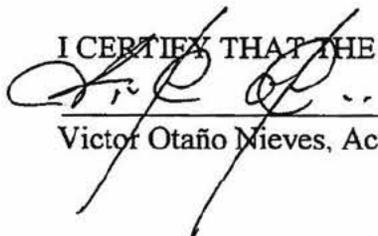
Principal Executive: Hon. Francisco Zavas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>4. In one file (17%) examined, the inspection report failed and the unit was not corrected, therefore, the Owner failed to correct deficiencies. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligations and/or cancellation of contract, within the required 30 calendar days.</p>	<p>The file will be reviewed to determine the appropriate corrective action</p>	<p align="center">Pending</p>	<p>Jorge L. Morales, Director DEC</p>	<p>30 April 2006</p>
<p>Recommendation:</p> <p>The Municipality should emphasize inspections procedures to ascertain that prompt corrective actions about the owners' obligations are taken. If the owner does not comply with federal requirements, the Municipality has the obligation to cancel the HAP contract.</p>	<p>A retraining session will be scheduled to emphasize the seriousness of the follow-up inspection.</p>	<p align="center">Pending</p>	<p>Jorge L. Morales, Director DEC</p>	<p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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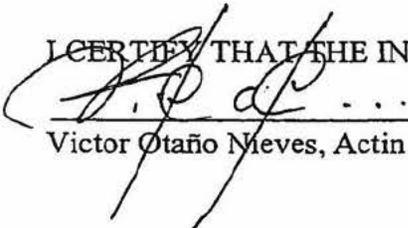
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-17 (FA) DISBURSEMENT PROCESS</p> <p>Condition:</p> <p>During our test over expenses recorded in administrative costs, we observed the following exceptions:</p> <p>1) The indirect cost invoice (2003-04) was dated before purchase order date (Check No. 142046, Voucher No. 05-030-059V).</p>	<p>This invoice corresponds to Indirect Cost for Fiscal Year 2003-2004. It was paid during economic year 2004-2005 with FY 2003-2004 funds. In the 2005 Trial balance is identified as Prior Year Expense.</p>	<p align="center">Pending</p>	<p>Jorge L. Morales, Director DEC</p>	<p>30 April 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

CORRECTIVE ACTION PLAN

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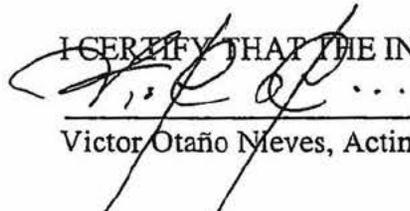
Principal Executive: Hon. Francisco Zayas Seiyo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2) The invoice was not cancelled with "Paid Stamp" in two voucher payments (Check No. 142046 and 145924, Voucher No. #05-030-059V and #05-030-074V)</p> <p>Recommendation:</p> <p>The Municipality should improve review procedures about the disbursement processing area.</p>	<p>This is an isolated situation of the operations of the Municipality of Ponce. The invoices mentioned in this finding were already cancelled. The account payable personnel makes sure that this requirements are met before filing the voucher.</p> <p>The Disbursement process and procedures will be evaluated to insure all requirements are met</p>	<p>Corrected</p> <p>Pending</p>	<p>Jorge L. Morales, Dir. DEC Camille Rivera, Finance Dir.</p> <p>Jorge L. Morales, Dir. DEC Camille Rivera, Finance Dir.</p>	<p>Immediately</p> <p>30 June 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Meves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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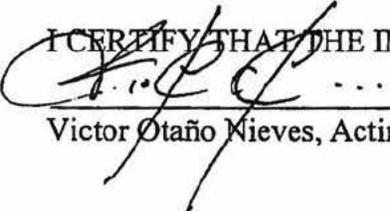
Principal Executive: Hon. Francisco Zayas Seiyo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>2005-18 (FA) REPORTING AND ACCOUNTING SYSTEM</p> <p>Condition:</p> <p>During the tests performed over the reporting and accounting system, we noted the following findings:</p> <p><i>Voucher for Payment of Annual Contribution and Operating Statement (HUD Form 52681);</i></p> <p>1. The report indicated obligations in the amount of \$19,369.63 that were not recorded in the accounting records examined.</p>	<p>Current procedures will be evaluated to improve the internal control of the unit.</p>	<p>Pending</p>	<p>Jorge L. Morales, Dir DEC</p>	<p>30 June 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Victor Otaño Nieves, Actin Mayor

March 31, 2004
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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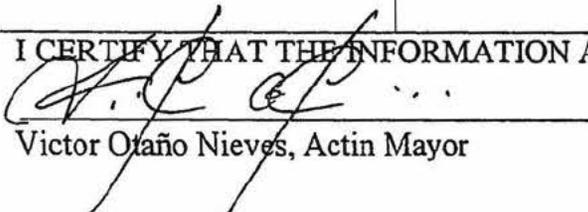
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p><i>Programs' Accounting Records:</i></p> <p>1) Accounts payable balances recorded at June 30, 2005 did not provide supporting details to verify that the current debts are applied in accordance with the period of availability of federal funds.</p> <p>2) The Program has not made collection procedures for benefits paid to ineligible participants during the year. The accounting records have not recorded tenants/participants accounts receivable.</p>	<p>An analysis is being conducted to perform a write-off of this account.</p> <p>The accounting system doesn't allow to reflect this account. The unit will be converting to an Accrual basis that provides an account for this purpose.</p>	<p>Pending</p> <p>Pending</p>	<p>Jorge L. Morales, Dir DEC</p> <p>Jorge L. Morales, Dir DEC</p>	<p>31 May 2006</p> <p>1 July 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

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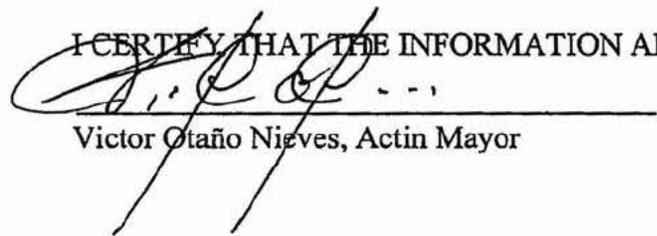
Principal Executive: Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	COMPLETION DATE
<p>Recommendation:</p> <p>The Municipality should strengthen its internal control procedures related to disbursements and accounting records in order to assure that they are properly documented as required by state and federal regulations.</p>	<p>Current procedures will be evaluated to improve the internal control of the unit.</p>	<p>Pending</p>	<p>Jorge L. Morales, Dir. DEC</p>	<p>30 June 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Victor Otaño Nieves, Actin Mayor

March 31, 2006
Date



ESTADO LIBRE ASOCIADO DE PUERTO RICO
 GOBIERNO MUNICIPAL AUTÓNOMO DE PONCE
 OFICINA DEL ALCALDE
 P. O. BOX 331709
 PONCE, PUERTO RICO 00733-1709

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Call Log. 1210

*Francisco Zayas Seijo, U.M.D.
 Alcalde*

December 21, 2005 and
 March 23, 2006

Reyes Ramis, Silvagnoli & Co. - PSC
 Certified Public Accountants
 PO Box 1106
 Coto Laurel, Puerto Rico 00780

Dear Sirs:

We are providing this letter in connection with your audit of the basic financial statements of the **Municipality of Ponce (the Municipality)** as of June 30, 2005 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the **Municipality** and the respective changes in financial position, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 21, 2005 and March 23, 2006, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all -
 - a. financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of Municipal Legislature.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies, in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements and the schedule of expenditures of federal awards.

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5. We believe the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others.
9. **The Municipality** has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and amounts receivable from or payable to related parties.
 - b) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no:
 - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b) Unasserted claims or assessments that our lawyers have advised us are probable of assertions and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

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- c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - d) Reservations or designations of fund equity that was not properly authorized and approved.
13. **The Municipality** has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 15. **The Municipality** has complied with all aspects of contractual agreements that would have material effect on the financial statements in the event of noncompliance.
 16. The financial statements properly classify all funds and activities.
 17. All funds that meet the quantitative criteria in GASB Statement No. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statements users.
 18. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves are properly classified and, if applicable, approved.
 19. Provisions for uncollectible receivables have been properly identified and recorded.
 20. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 21. Revenues are appropriately classified in the statements of activities within program revenues, grants and contributions, or general revenues.
 22. Inter-fund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 23. Deposits are properly classified as to risk.
 24. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 25. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
 26. With respect to federal award programs:
 - a) We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*.
 - b) We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities,
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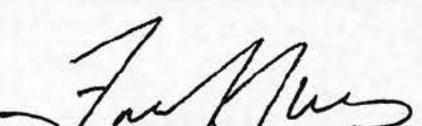
direct appropriations, and other assistance.

- c) We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- d) We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
- e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.
- f) We have received no requests from a federal Municipality to audit one or more specific programs as a major program.
- g) We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- h) Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost of Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j) We have made available to you all documentation relating to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.
- l) The copies of federal programs financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal Municipality or pass-through entity, as applicable.

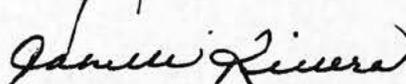


- m) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- n) We have taken appropriate action on a timely basis after recipient of subrecipient's auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- o) We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- p) We are responsible for and have accurately prepared the auditee section of the Data Collection Form, as required by OMB Circular A-133 and we are responsible for preparing and implementing a corrective action plan for each audit finding.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequently to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in the aforementioned financial statements or in the schedule of finding and questioned costs.

Francisco Zayas Seijo, Mayor

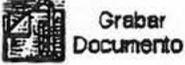


Camille Rivera Muñoz,
Finance and Budget Director

Tomo 2005

Ley Número: 105 -- Municipios Autónomos, Ley de; Enmienda Art. 7.011

◀ Texto ▶

Ley Número: 105 – Municipios Autónomos, Ley de; Enmienda Art. 7.011**Página: 1****Municipios Autónomos, Ley de; Enmienda Art. 7.011**
Ley Núm. 105 de 26 de agosto de 2005**(P. de la C. 1477)**

Para enmendar el inciso (b) del Artículo 7.011, de la Ley Núm. 81 de 30 de agosto de 1991, según enmendada, mejor conocida como "Ley de Municipios Autónomos de Puerto Rico", con el propósito de extender el término de treinta (30) años a cuarenta (40) años, la amortización del déficit operacional acumulado de acuerdo a como este se refleje en los estados financieros auditados al 30 de junio de 2005.

EXPOSICIÓN DE MOTIVOS

La Ley Núm. 81 de 30 de agosto de 1991, según enmendada, conocida como "Ley de Municipios Autónomos de Puerto Rico", se aprobó con el propósito de brindarle a los Municipios el máximo posible de autonomía y proveerles las herramientas financieras, en el ánimo de expandir los poderes y facultades necesarias que propendan a una ejecución de excelencia en su desarrollo urbano, social y económico para lograr un funcionamiento gubernamental democrático efectivo.

La realidad que acontece a la mayoría de los Municipios de Puerto Rico, es el enfrentamiento ante los cambios en el alto costo de vida afectando así la economía. Por otro lado, el Municipio tiene que utilizar sus ingresos en responsabilidades del Gobierno Central como la Reforma de Salud, mantenimiento de carreteras, distribución de agua potable, etc., sin obviar, los cambios atmosféricos impredecibles a los que se enfrentan. A estos efectos, existen Municipios que están arrastrando un déficit marcado que afecta las ejecuciones del mismo. Ante este panorama, es necesario tomar conciencia y hacerle justicia a estos enmendando el artículo objeto de esta medida.

En ánimo de ofrecerles un alivio ante la realidad presupuestaria de los Municipios, entendemos que la Ley de Municipios Autónomos de Puerto Rico, necesita ser enmendada con el propósito de extender el término de treinta (30) años ya previamente otorgado, para establecer un nuevo término de cuarenta (40) años para amortizar el déficit existente y el acumulado por los Municipios por concepto de deuda pública. El balance del déficit amortizado a la fecha del 30 de junio de 2005 y acumulado a la fecha del 30 de junio de 2004, se consolidarán para establecer un nuevo balance que será amortizado para un nuevo término de cuarenta (40) años.

Por todo lo antes expuesto, se enmienda el inciso (b) Artículo 7.011, de la Ley Núm. 81 de 30 de agosto de 1991, según enmendada con el propósito de extender el término para amortizar el déficit presupuestario de los Municipios.

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DECRÉTASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

Sección 1.-Se enmienda el inciso (b) del Artículo 7.011.- "Cierre de Libros".- de la Ley Núm. 81 de 30 de agosto de 1991, para que lea como sigue:

"Artículo 7.011.-Cierre de Libros

Al terminar cada año fiscal, se cerrarán en los libros municipales las asignaciones autorizadas para el año fiscal a que correspondan, con el fin de conocer y evaluar las operaciones municipales durante el referido año y determinar su situación financiera.

(a) ...

(b) Proveer que el déficit operacional acumulado por el municipio según lo reflejen los estados financieros auditados al 30 de junio de 2005, a tal fecha, por concepto de deuda pública se amortice en un período no mayor de cuarenta (40) años. La cantidad equivalente a la amortización anual se consignará como cuenta de gastos en los presupuestos anuales del municipio como déficit acumulados en una cuenta separada que deberá proveer el esquema de contabilidad uniforme.

(c) ...

(d) ..."

Sección 2.-Esta Ley entrará en vigor inmediatamente después de su aprobación.

ESTADO LIBRE ASOCIADO DE PUERTO RICO
OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

**INFORME DE SUPERAVIT O DEFICIT
30 DE ABRIL DE 2008**

MUNICIPIO: PONCE

AÑO FISCAL	SUPERAVIT / DEFICIT
Acumulado 1993-04	\$ (19,215,303.00)
1993-94	2,315,421.00
1994-95	3,418,756.00
1995-96	(22,847,153.00)
1996-97	6,260,127.00
1997-98	764,894.00
1998-99	25,917,864.00
1999-00	3,299,111.00
2000-01	18,256,993.00
2001-02	(9,782,051.00)
2002-03	19,383,146.00
2003-04	2,016,003.00
2004-05	9,473,441.00
2005-06	(23,167,866.00)
2006-07	6,894,159.00
ENDING FUND BALANCE 2006-07	\$ 32,890,782.00