

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

**MUNICIPIO DE PONCE**  
**AUDITORIA 2005-2006**  
**30 DE JUNIO DE 2006**

REGIONAL DEL COMISIONADO  
PRINCIPALES

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
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 basic 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, 2006, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents. These basic 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 auditors 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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.

In our opinion, the basic 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, 2006 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 basic 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, 2006, 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 28 and 29), certain changes and restatements were made to the reporting entity as presented in the accompanying basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 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.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



December 22, 2006

License number 6  
Ponce, Puerto Rico

Stamp number 2205936 was  
affixed to the original report.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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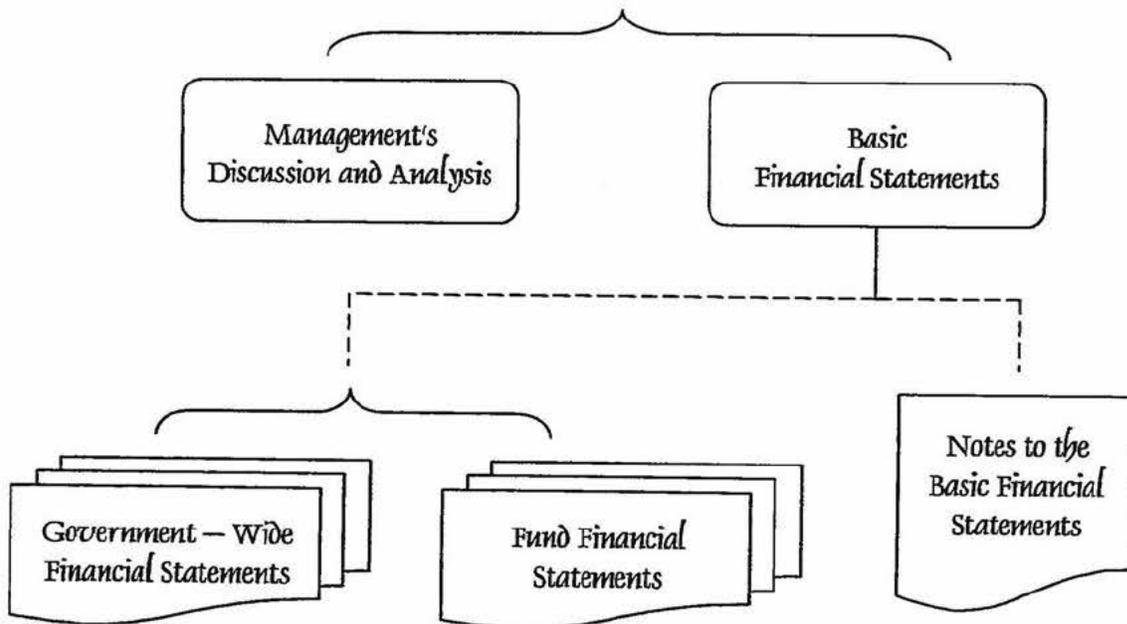
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the **Municipality of Ponce (the Municipality)**, we offer readers of the **Municipality's** basic financial statements this narrative overview and analysis of the financial activities of the **Municipality** as of and for the fiscal year ended June 30, 2006. All amounts, unless otherwise indicated, are expressed in millions of dollars.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The **Municipality's** annual financial report is comprised of the following components: 1) management's discussion and analysis, and 2) basic financial statements. The basic financial statements consist of government-wide financial statements, fund financial statements and notes to the basic financial statements.

**COMPONENTS OF THE ANNUAL FINANCIAL REPORT**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are comprised of the statement of net assets and the statement of activities. These two statements are designed to provide readers with a broad overview of the **Municipality's** finances utilizing the full accrual method of accounting, in a manner similar to a private-sector business. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

## COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS, Continued**

These two statements report the **Municipality's** net assets and changes in them. You can analyze 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. However, you will need to consider other non-financial factors, such as changes in the **Municipality's** property tax base and the condition of the roads, to assess the *overall health of the Municipality*.

Both the government-wide financial statements distinguish functions of the **Municipality** that are principally supported by Taxes, Capital Grants and Contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the **Municipality** include general government, public safety, public works, culture and recreation, health and welfare, urban development, legal services, education, training and employment, capital outlays special communities, capital outlays of projects, depreciation and principal plus interest on related long-term debt.

Other kinds of activities of the **Municipality** are the component units that include from separate legal entities in its report, the Port of Ponce (POP), 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. The **Municipality** has another component unit, Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C.D. (CODEPCOVI), which closed its operations effective June 30, 2006, and accordingly its financial condition and results of operations as of and for the year ended June 30, 2006 were not included in the basic financial statements of the **Municipality**.

The governmental-wide financial statements can be found on pages 14 to 16 of this report.

#### **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spend able resources, as well as on balances of spend able resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

The **Municipality** maintains six individual governmental funds; General Fund , Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Debt Service, Housing Urban Development Grants (HUD) and Others Funds. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes in fund balances.

Budgetary comparison statements for the general fund and debt service fund are required by law and are included in the basic financial statements on pages 23 and 24 of this report.

The governmental funds financial statements can be found on pages 17 to 21 of this report.

#### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 25-49 of this report.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL HIGHLIGHTS**

- **The Municipality's capital assets increased as a result of this year's operations.** Capital assets as of June 30, 2006 are \$258.4 millions, as compared to \$192.6 millions in 2005.
- At June 30, 2006, the Municipality's governmental funds reported total ending fund balances of \$39.6 millions. Capital Projects fund balance had an ending balance of \$26.1 millions which represent 65% of total fund balance.
- For the year ended June 30, 2006, the Municipality had total revenues of \$142.3 millions. The general fund shown revenues by \$96 millions, which represent 67.5% of total revenues.
- The investment in capital assets, net of related of debt, for this year was \$126.38 millions. The Municipality uses these assets to provide services to citizens. Although the Municipality's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Governmental Activities**

Net assets of the Municipality's governmental activities increased from \$15.12 in 2005 to \$55.84 in 2006. 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, decreased from approximately \$(133.43) millions at June 30, 2005 to approximately \$(122.72) millions at June 30, 2006.

**TABLE 1**

**NET ASSETS**

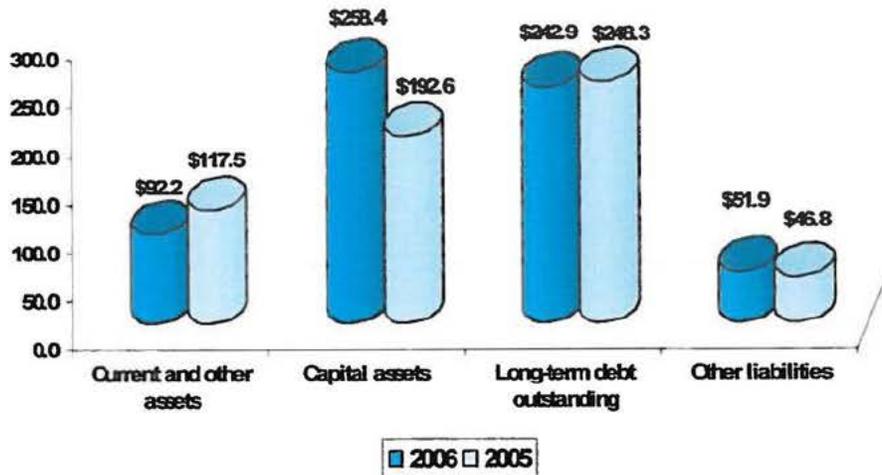
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 92.24	\$ 117.51
Capital assets	<u>258.40</u>	<u>192.64</u>
Total assets	<u>350.64</u>	<u>310.15</u>
Long-term debt outstanding	(242.88)	(248.29)
Other liabilities	<u>(51.91)</u>	<u>(46.76)</u>
Total liabilities	(294.79)	(295.03)
Net assets:		
Invested in capital assets, net of related debt	126.38	58.49
Restricted for:		
Debt services	4.58	10.29
Capital projects	31.18	64.70
Federal programs	7.89	10.32
Special purposes	8.53	4.75
Unrestricted	<u>(122.72)</u>	<u>(133.43)</u>
Net assets	<u>\$ 55.84</u>	<u>\$ 15.12</u>

## COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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#### Components of Net Assets



Total revenues for the Municipality's governmental activities decreased by \$26.17 millions while total expenses increased by \$6.1 millions. The Municipality took the following major actions during year to improve its financial position:

- The Mayor of the Municipality made various committees to supervising the operations of all departments. The components of that committee were met, at least, once per month. In those meetings the Mayor received various financial reports, such as, cash-flows statement, budget vs. actual, aging of accounts payable and a management report with the necessary explanations of the each account variance and the status of accounts payable and accrued expenses. The financial decisions of the Mayor were principally supported by those reports.
- During fiscal year 2004-05, the Municipality received \$29.5 millions of Commonwealth of Puerto Rico joint resolutions, of which a big portion were expended in infrastructure, health and welfare activities during the fiscal year 2005-06. During the fiscal year 2005-06, the Municipality did not received resources of joint resolutions.
- 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.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

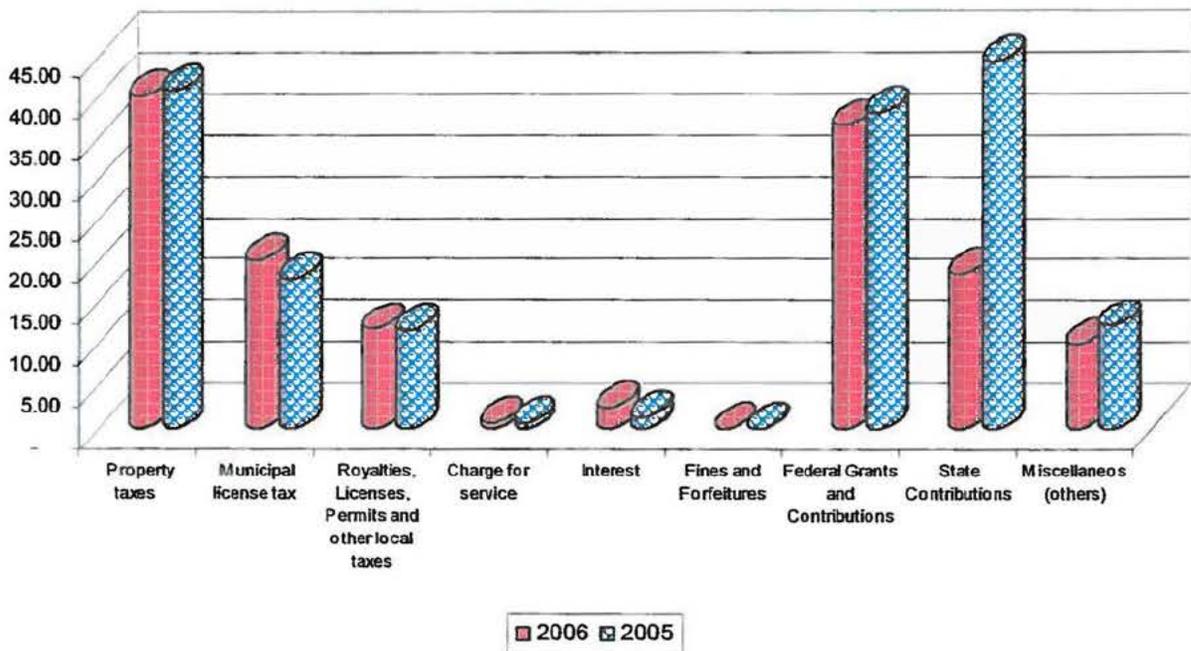
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Revenues in the statement of revenues, expenditures and changes in fund balances, pages 20 to 21, for the fiscal years ended June 30, 2006 were as follows:

**TABLE 2  
GOVERNMENTAL REVENUES**

	<u>Total Revenues</u>	
	2006	2005
Property taxes	\$ 40.46	\$ 41.06
Municipal license tax	20.45	18.07
Royalties, licenses, permits and other local taxes	12.08	11.88
Charges for services	0.80	0.66
Interest	2.47	1.41
Fines and forfeitures	0.05	0.10
Federal grants and contributions	36.81	38.22
State contributions	18.75	44.50
Others	<u>10.39</u>	<u>12.54</u>
<b>Total</b>	<u>\$ 142.26</u>	<u>\$ 168.44</u>

**Governmental Fund Revenues**



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

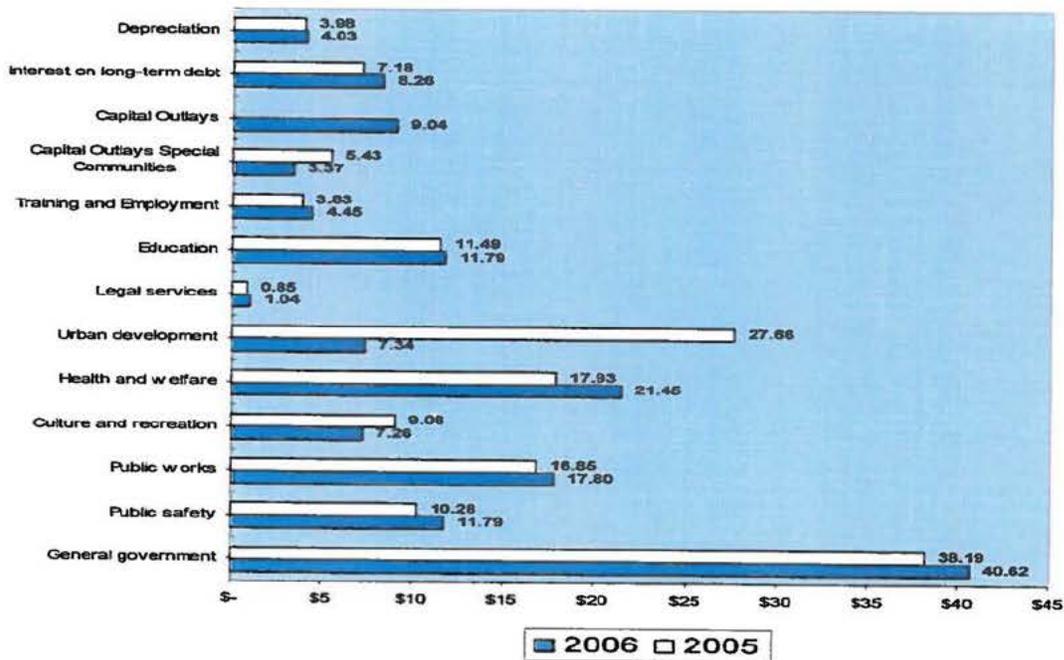
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The cost of all governmental activities for the year ended June 30, 2006 was \$148.24 millions as compared to \$152.76 millions in prior year. Table 3 below, presents the cost of each of the Municipality's largest program expenses for the fiscal year ended June 30, 2006.

**TABLE 3  
GOVERNMENTAL ACTIVITIES**

	<u>Total Expenses</u>	
	2006	2005
General government	\$ 40.62	\$ 38.19
Public safety	11.79	10.28
Public work	17.80	16.85
Culture and recreation	7.26	9.08
Health and welfare	21.45	17.93
Urban development	7.34	27.66
Legal service	1.04	0.85
Education	11.79	11.49
Training and employment	4.45	3.83
Capital outlays special communities	3.37	5.43
Capital outlays	9.04	7.18
Interest on long-term debt	8.26	7.18
Depreciation	<u>4.03</u>	<u>3.98</u>
<b>Total</b>	<b><u>\$ 148.24</u></b>	<b><u>\$ 152.75</u></b>

**2006 Governmental Activities Expenses**



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**REPORTING THE MUNICIPALITY'S MOST SIGNIFICANT FUNDS**

**Governmental-wide financial statements**

The statement of activities presented on page 16, provide detailed information about the most significant funds, of **the Municipality**.

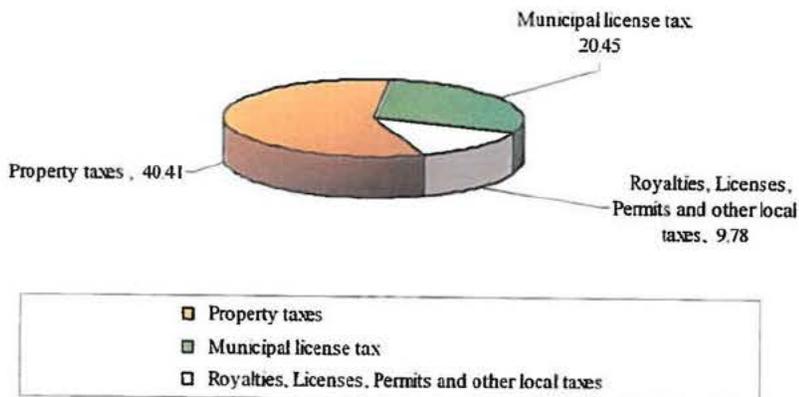
The principal governmental revenues including, property taxes, municipal license taxes, royalties, licenses and permits amounted to \$70.64 millions in 2006 and \$69.98 in 2005. During the fiscal year 2005-06, Port of Ponce transferred \$1.0 millions to **the Municipality**, as established by Resolution No. 38 (2005-06), and the debt service fund transferred the amount of approximately \$4.4 millions for public improvements.

**The Municipality's** governmental funds reported a change in net assets of \$39.21 millions in 2006 and \$15.67 millions in 2005. Table 4 and 5 shown the principal resources collected by governmental activities:

**TABLE 4  
GOVERNMENTAL ACTIVITIES REVENUES**

	<b>General Revenues by Major Sources</b>	
	<b>2006</b>	<b>2005</b>
Property taxes	\$ 40.41	\$ 41.06
Municipal license taxes	20.45	18.07
Royalties, licenses, permits and other local taxes	<u>9.78</u>	<u>10.85</u>
<b>Total</b>	<u>\$ 70.64</u>	<u>\$ 69.98</u>

**2006 Governmental Activities Revenues**



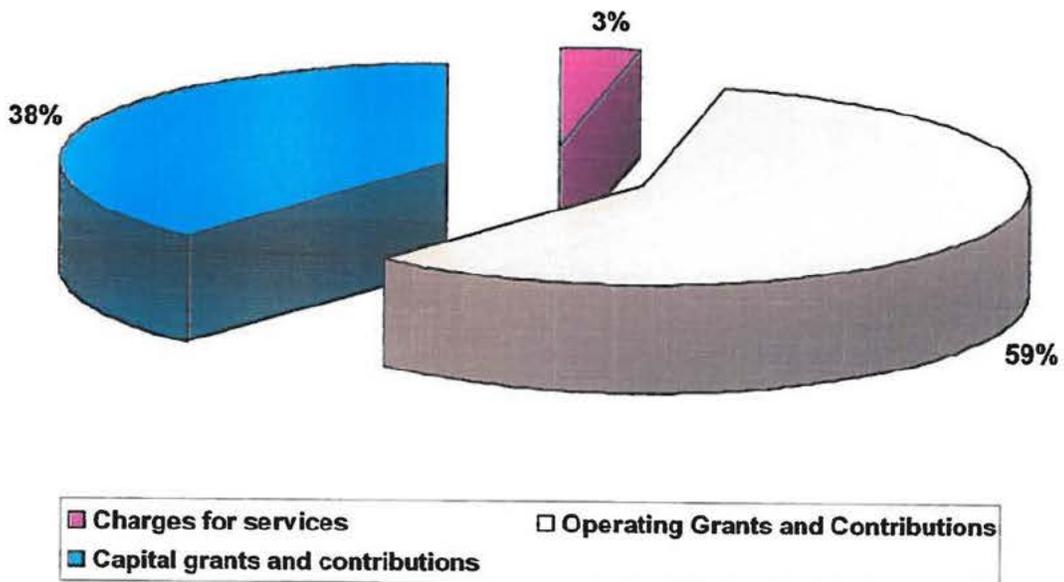
**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**TABLE 5**  
**GOVERNMENTAL ACTIVITIES**

	<b>Program Revenues by Major Sources</b>	
	2006	2005
Charges for service	\$ 2.30	\$ 2.09
Operating grants and contributions	40.11	59.08
Capital grants and contributions	<u>26.36</u>	<u>35.12</u>
Total	<u>\$ 68.77</u>	<u>\$ 96.29</u>

**2006 Governmental Activities Revenues**



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**Fund financial statements**

Governmental funds, as presented in the balance sheet on pages 17 and 18 reported a total fund balance of \$39.60 millions in 2006, and \$69.9 millions in 2005.

Also, there are others explanations that have been identified and should be read in conjunction.

- **The Municipality** had a reduction in the deficit of the unreserved fund balance as of June 30, 2006 for approximately \$2.5 millions.
- During the fiscal year, the Municipality maintained a revenue trend in the property taxes due to the effort of the Municipality property tax office.
- State contributions of approximately \$18.7 millions; principally include \$8.33 millions of the legal claim of Ponce en Marcha, and \$7.86 of in lieu of tax provided by PR Electric Power Authority.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

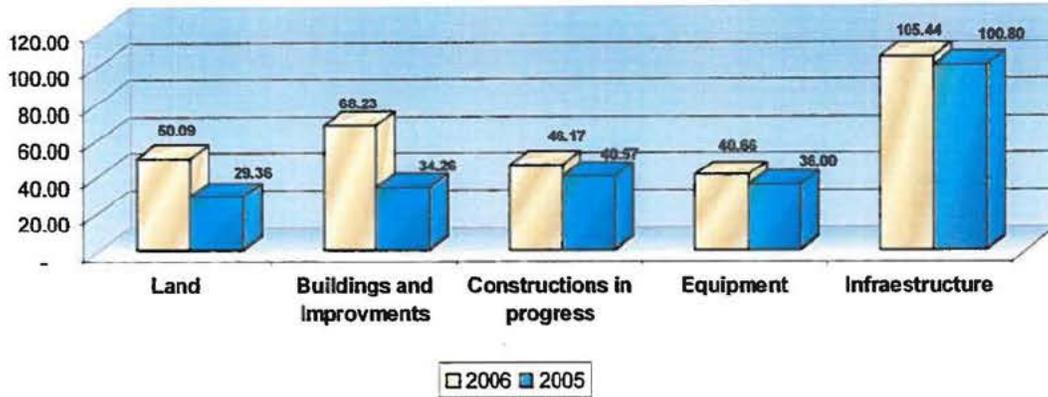
As of June 30, 2006, the Municipality of Ponce had \$310.59 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment, see Table 6 below. This amount represents a net increase of \$69.60 millions.

**TABLE 6**  
**CAPITAL ASSETS**  
(In thousands)

	<u>Governmental Activities</u>	
	2006	2005
Land	\$ 50.09	\$ 29.36
Buildings and improvements	68.23	34.26
Construction in progress	46.17	40.57
Equipment	40.66	36.00
Infrastructure	<u>105.44</u>	<u>100.80</u>
Total	<u>\$ 310.59</u>	<u>\$ 240.99</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**



Buildings and improvements increased by \$31.34 millions and land increased by \$23.36 millions. The increase during the fiscal year 2005-06 was due to the fact that the Recreational and Sport Department of the Commonwealth of Puerto Rico transferred its ownership titles of the Auditorium Pachin Vicens, Paquito Montaner Stadium and several basketball courts to the Municipality. The real property acquisitions were recorded at fair market value. More detailed information about the Municipality's capital assets is presented in Note 10 to the basic financial statements.

**Debt**

At year-end, the Municipality had \$243.70 millions in bonds, notes and other long-term debts outstanding as compared to \$248.27 millions in prior year, a decreased of \$4.57 millions, as shown in Table 7 below.

**TABLE 7  
OUTSTANDING DEBT  
(In thousands)**

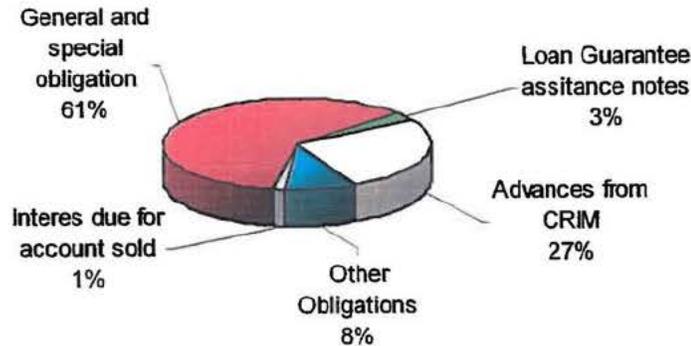
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
General and special obligation	\$ 148.13	\$ 154.36
Loan guarantee assistance notes	6.92	9.91
Advances from CRIM	65.27	61.92
Other obligations	20.20	18.68
Interest due for account sold	3.18	3.40
<b>Total</b>	<u>\$ 243.70</u>	<u>\$ 248.27</u>

## COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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### 2006 Outstanding Debt



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 compensated absences, LIMS refinancing debt, claims and judgments. Detailed information about the Municipality's long-term liabilities is presented in Note 15 to the basic financial statements.

### GENERAL FUND BUDGETARY AND ECONOMIC FACTORS HIGHLIGHTS

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2005-06 budget.

During the fiscal year 2005-06, the original budget was amended to increase revenues by \$1.3 millions. The increase in appropriations was to be funded from additional state contributions obtained from Electric Power Authority.

Actual revenues included in the general fund decreased by \$4.17 as compared to budgeted revenues. This decrease was principally in other revenues because the Municipality did not receive the deficiencies of property taxes that were budgeted in \$3.43 millions. The management we made the necessary adjustments over budgeted expenditures to mitigate the deficiency in the budgeted amount. The statement of revenues and expenditures – general fund - budget and actual in page 23 presented a final budgeted deficiency of approximately \$2.0 millions.

The original and final budget (General Fund and Debt Service Fund) 2005-06 is presented in page 23 providing detailed information to legal compliance.

### 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, 2006

ASSETS	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
Cash (Notes 1 and 4)	\$ 7,798,851	\$ 2,841,273	\$ 386,937	\$ 293,096
Accounts receivable, net (Notes 1 and 8):				
Municipal license tax	181,659			
Other	376,517	207,829	70,440	2,180
Interest receivable	71,179			
Due from federal government (Note 9)	4,577,464			
Due from local government (Note 9)	9,043,646			
Due from primary government		75,346		
Other assets			21,628	86,374
Restricted assets:				
Cash and cash equivalents (Notes 1 and 4)	40,410,376		431,964	
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	29,777,426			
Real estate projects under construction (Note 1)				
Capital assets (Notes 1 and 10):				
Non-depreciable	93,631,323			227,709
Depreciable, net of accumulated depreciation	<u>164,771,695</u>	<u>2,620,781</u>	<u>36,222</u>	<u>222,198</u>
Total assets	<u>350,640,136</u>	<u>5,745,229</u>	<u>947,191</u>	<u>831,557</u>

See notes to the basic financial statements.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

STATEMENT OF NET ASSETS (CONTINUED)  
 JUNE 30, 2006

	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
<b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities (Note 11)	\$ 25,170,132	\$ 535,546	\$ 38,570	\$ 169,420
Due to primary government		60,928		
Due to other agencies (Note 12)	6,830,533			
Notes payable (Note 15)				60,333
Deferred revenues (Note 14):				
Municipal license tax	16,321,303			
Federal government	1,163,572			
Others	9,498			
Accrued interest	2,427,089			
Non current liabilities (Note 15):				
Due within one year	52,288,027			
Due after one year	<u>190,588,361</u>			
Total liabilities	<u>294,798,515</u>	<u>596,474</u>	<u>38,570</u>	<u>229,753</u>
<b>NET ASSETS:</b>				
Investment in capital assets, net of related debt	126,375,073			
Restricted for:				
Federal grants	7,894,314			
Debt service	4,582,109			
Special purposes	8,527,633			103,198
Capital project	31,184,045		36,222	
Unrestricted (deficit)	<u>(122,721,553)</u>	<u>5,148,755</u>	<u>872,399</u>	<u>498,606</u>
Total net assets	<u>\$ 55,841,621</u>	<u>\$ 5,148,755</u>	<u>\$ 908,621</u>	<u>\$ 601,804</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, 2006

Functions/Programs	Expenses	Program Revenues			Primary Governmental Activities	Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Port of Ponce	Component Units	
							CODEZOL	Patronato
<b>PRIMARY GOVERNMENT</b>								
Governmental activities:								
General government	\$ 40,624,432		\$ 3,549,089		\$ (37,075,343)			
Public safety	11,791,875		776,781		(11,015,094)			
Public works	17,802,943	\$ 2,300,843		\$ 26,363,123	10,861,023			
Culture and recreation	7,256,349				(7,256,349)			
Health and welfare	21,447,977		12,799,167		(8,648,810)			
Urban development	7,339,483		6,028,023		(1,311,460)			
Legal services	1,044,780				(1,044,780)			
Education	11,788,339		11,800,906		12,567			
Training and employment	4,450,671		5,159,440		708,769			
Capital outlays:								
Special communities	3,373,670				(3,373,670)			
Projects	9,035,951				(9,035,951)			
Depreciation	4,026,337				(4,026,337)			
Interest	8,260,044				(8,260,044)			
<b>TOTAL</b>	<b>\$ 148,242,851</b>	<b>\$ 2,300,843</b>	<b>\$ 40,113,406</b>	<b>\$ 26,363,123</b>	<b>(79,465,479)</b>			
<b>COMPONENT UNITS:</b>								
Port of Ponce	\$ 2,519,505	\$ 1,643,283		\$ 55,388	\$ (820,834)			
CODEZOL	461,085	540,666				\$ 79,581		
Patronato	1,347,405	477,732	\$ 906,348				\$ 36,675	
<b>TOTAL</b>	<b>\$ 4,327,995</b>	<b>\$ 2,661,681</b>	<b>\$ 906,348</b>	<b>\$ 55,388</b>	<b>\$ (820,834)</b>	<b>\$ 79,581</b>		<b>\$ 36,675</b>
General revenues:								
Property taxes (Note 5)					40,407,507			
Municipal license tax (Note 6)					20,446,460			
Licenses, permits and other local taxes					9,781,266			
Grants and contributions not restricted to specific programs					248,056			
Interest					2,470,525	41,044	20,814	3,487
Transfer from Port of Ponce					1,000,000			
Other					845,312	33,696		27,028
Special item (Note 10)					43,477,817			
<b>Total general revenues</b>					<b>118,676,943</b>	<b>74,740</b>	<b>20,814</b>	<b>30,515</b>
Change in net assets								
Net assets, as previously reported					39,211,464	(746,094)	100,395	67,190
Prior period adjustments (Note 22)					15,119,540	5,894,849	808,226	534,614
Net assets, as restated					1,510,617			
Net assets, ending					<b>16,630,157</b>	<b>5,894,849</b>	<b>808,226</b>	<b>534,614</b>
					<b>\$ 55,841,621</b>	<b>\$ 5,148,755</b>	<b>\$ 908,621</b>	<b>\$ 601,804</b>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2006

	<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>
<b>ASSETS</b>							
Cash (Notes 1 and 4)	\$ 7,798,851						\$ 7,798,851
Accounts receivable, net (Notes 1 and 8):							
Municipal license taxes	181,659						181,659
Others	259,877	\$ 5,570	\$ 6,181		\$ 104,889		376,517
Interest receivable	27,701			\$ 43,477			71,178
Due from local government (Note 9)	6,583,325		1,547,707	195,581			8,326,613
Due from federal government (Note 9)	25,029	304,987			3,209,995	\$ 1,037,453	4,577,464
Due from other funds (Note 7)	1,335,374	656,767			1,823,872		3,816,013
Restricted cash:							
Cash and cash equivalents (Notes 1 and 4)	35,220,010	65,444	238,923		4,610,754	275,244	40,410,375
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	<u>17,058,361</u>			<u>12,410,139</u>		<u>308,926</u>	<u>29,777,426</u>
<b>TOTAL</b>	<u>\$ 68,490,187</u>	<u>\$ 1,032,768</u>	<u>\$ 1,792,811</u>	<u>\$ 12,649,197</u>	<u>\$ 9,749,510</u>	<u>\$ 1,621,623</u>	<u>\$ 95,336,096</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)  
 JUNE 30, 2006

	<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>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES:</b>							
Accounts payable and accrued liabilities (Note 11)	\$ 16,954,473	\$ 528,661	\$ 352,811		\$ 1,283,787	\$ 410,398	\$ 19,530,130
Due to other agencies (Note 12)	5,646,461				1,184,072		6,830,533
Due to other funds (Note 7)	2,626,442	20,341			461,505	707,725	3,816,013
General obligations:							
Bonds				\$ 5,640,000			5,640,000
Accrued interest				2,427,088			2,427,088
Deferred revenues (Note 14):							
Municipal license tax	16,321,303						16,321,303
Others	9,498						9,498
Federal government		32,288			817,310	313,974	1,163,572
<u>Total liabilities</u>	<u>41,558,177</u>	<u>581,290</u>	<u>352,811</u>	<u>8,067,088</u>	<u>3,746,674</u>	<u>1,432,097</u>	<u>55,738,137</u>
<b>FUND BALANCE:</b>							
Reserved for:							
Encumbrances (Note 2)	10,330,993						10,330,993
Federal grants		451,478	1,440,000		6,002,836		7,894,314
Debt service				4,582,109			4,582,109
Special purposes	8,477,710						8,477,710
Capital projects	26,089,145						26,089,145
Unreserved fund balance	(17,965,838)					189,526	(17,776,312)
<u>Total fund balance</u>	<u>26,932,010</u>	<u>451,478</u>	<u>1,440,000</u>	<u>4,582,109</u>	<u>6,002,836</u>	<u>189,526</u>	<u>39,597,959</u>
<b>TOTAL</b>	<u>\$ 68,490,187</u>	<u>\$ 1,032,768</u>	<u>\$ 1,792,811</u>	<u>\$ 12,649,197</u>	<u>\$ 9,749,510</u>	<u>\$ 1,621,623</u>	<u>\$ 95,336,096</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, 2006

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**TOTAL FUND BALANCE - GOVERNMENTAL FUNDS** \$ 39,597,959

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 258,403,018
- Property tax receivable recognized in accrual basis 717,033
- Some liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3) (242,876,389)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 55,841,621

See notes to the basic financial statements.

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**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, 2006**

	<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>
<b>REVENUES:</b>							
Property taxes (Note 5)	\$ 31,490,999			\$ 8,969,284			\$ 40,460,283
Municipal license tax (Note 6)	20,446,460						20,446,460
Royalties and others	2,300,842						2,300,842
Licenses, permits and other local taxes	9,781,266						9,781,266
Charges for services and rents	799,311						799,311
Fines and forfeitures	45,995						45,995
Interest	1,968,397			389,281	\$ 112,847		2,470,525
Intergovernmental revenues (Note 13):							
Federal grants and contributions	95,893	\$ 13,975,319	\$ 5,159,440		15,880,555	\$ 1,701,166	36,812,373
State contributions	18,752,044						18,752,044
Other	10,357,661					32,700	10,390,361
Total revenues	<u>96,038,868</u>	<u>13,975,319</u>	<u>5,159,440</u>	<u>9,358,565</u>	<u>15,993,402</u>	<u>1,733,866</u>	<u>142,259,460</u>
<b>EXPENDITURES:</b>							
<b>Current:</b>							
General government	39,579,126						39,579,126
Public safety	11,464,376					776,782	12,241,158
Public works	17,802,943						17,802,943
Culture and recreation	7,256,349						7,256,349
Health and welfare	9,717,783	2,174,413			8,783,559	772,222	21,447,977
Urban development					7,407,829		7,407,829
Legal services	1,077,313						1,077,313
Education		11,788,339					11,788,339
Training and employment			4,486,777				4,486,777
<b>Capital outlays:</b>							
Special communities Projects	3,373,670 31,150,589						3,373,670 31,150,589
<b>Debt service:</b>							
Principal	590,000			5,640,000	2,995,000		9,225,000
Interest	3,188,512			4,716,335	355,197		8,260,044
Total expenditures	<u>125,200,661</u>	<u>13,962,752</u>	<u>4,486,777</u>	<u>10,356,335</u>	<u>19,541,585</u>	<u>1,549,004</u>	<u>175,097,114</u>
Excess (deficiency) of revenues over expenditures	<u>(29,161,793)</u>	<u>12,567</u>	<u>672,663</u>	<u>(997,770)</u>	<u>(3,548,183)</u>	<u>184,862</u>	<u>(32,837,654)</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, 2006**

	<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>
<b>OTHER FINANCING SOURCES (USES):</b>							
Transfer from Port of Ponce	1,000,000						1,000,000
Transfers in	4,993,927						4,993,927
Transfers out			(107,800)	(4,718,318)	(83,493)	(84,316)	(4,993,927)
Total other financing sources (uses)	<u>5,993,927</u>	<u>-</u>	<u>(107,800)</u>	<u>(4,718,318)</u>	<u>(83,493)</u>	<u>(84,316)</u>	<u>1,000,000</u>
Excess (deficiency) of revenues over expenditures and other financing sources	<u>(23,167,866)</u>	<u>12,567</u>	<u>564,863</u>	<u>(5,716,088)</u>	<u>(3,631,676)</u>	<u>100,546</u>	<u>(31,837,654)</u>
FUND BALANCE, July 1, 2005, As previously reported	49,307,055	414,569	777,854	10,298,197	9,127,319	-	69,924,994
PRIOR PERIOD ADJUSTMENTS (Note 22)	<u>792,821</u>	<u>24,342</u>	<u>97,283</u>		<u>507,193</u>	<u>88,980</u>	<u>1,510,619</u>
FUND BALANCE, July 1, 2005, As restated	<u>50,099,876</u>	<u>438,911</u>	<u>875,137</u>	<u>10,298,197</u>	<u>9,634,512</u>	<u>88,980</u>	<u>71,435,613</u>
FUND BALANCE, June 30, 2006	<u>\$ 26,932,010</u>	<u>\$ 451,478</u>	<u>\$ 1,440,000</u>	<u>\$ 4,582,109</u>	<u>\$ 6,002,836</u>	<u>\$ 189,526</u>	<u>\$ 39,597,959</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, 2006**

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**NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** \$ (31,837,654)

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. 26,352,917
- Loss on disposition of capital assets reported in the statement of activities, but do not require including as current expenditures. (46,031)
- Non cash transactions derived of donated capital assets included in the statements of activities and therefore are not reported in the funds statements. 43,477,817
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the source of current financial resources. (4,026,337)
- Some Municipality's long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds as expenditures:
  - Increase in property tax advances (3,350,769)
  - Net increase in legal claims and judgments (1,556,240)
  - Net increases in compensated absences (318,420)
  - Decreases in LIMS refinancing debt, and interest due for accounts sold 574,148
- 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. 9,225,000
- Property taxes revenues included in the statements of activities and therefore are not reported in the funds statements as available and measurable criteria 717,033

**CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 39,211,464

See notes to the basic financial statements.

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COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 31,490,832	\$ 31,490,833	\$ 31,490,833	\$
Municipal license taxes	19,096,989	19,096,989	20,270,401	1,173,412
Royalties and other	2,001,077	2,001,077	2,267,320	266,243
Licenses, permits and other				
local taxes	4,364,878	4,364,878	5,061,162	696,284
Charges for services and rents	749,911	749,910	799,565	49,655
Fines and forfeitures	400,000	400,000	45,995	(354,005)
Interest	1,113,921	1,113,921	2,440,929	1,327,008
Intergovernmental revenues -				
federal grant and contribution	268,044	268,044	321,286	53,242
State contributions	10,842,016	12,143,177	12,498,988	355,811
Other revenues	17,779,156	17,779,157	10,045,730	(7,733,427)
Total revenues	<u>88,106,824</u>	<u>89,407,986</u>	<u>85,242,209</u>	<u>(4,165,777)</u>
<b>EXPENDITURES:</b>				
General government	37,217,722	38,549,042	38,689,840	(140,798)
Public safety	11,551,760	11,551,760	11,111,875	439,885
Public works	18,233,978	18,233,978	17,638,956	595,022
Culture and recreation	8,494,453	8,464,295	7,254,372	1,209,923
Health and welfare	9,701,634	9,701,634	9,701,634	
Legal services	1,121,479	1,121,479	1,077,313	44,166
Debt service:				
Principal	590,000	590,000	590,000	
Interest	1,195,798	1,195,798	1,186,524	9,274
Total expenditures	<u>88,106,824</u>	<u>89,407,986</u>	<u>87,250,514</u>	<u>2,157,472</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,008,305)</u>	<u>\$ (2,008,305)</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 9,237,641	\$ 9,237,641	\$ 8,969,283	\$ (268,358)
Interest	-	-	389,281	389,281
Total revenues	<u>9,237,641</u>	<u>9,237,641</u>	<u>9,358,564</u>	<u>120,923</u>
EXPENDITURES:				
Debt service:				
Principal	4,456,115	4,456,115	5,640,000	1,183,885
Interest	<u>4,781,526</u>	<u>4,781,526</u>	<u>4,716,335</u>	<u>(65,191)</u>
Total expenditures	<u>9,237,641</u>	<u>9,237,641</u>	<u>10,356,335</u>	<u>(1,118,694)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (997,771)</u>	<u>\$ (997,771)</u>

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, 2006

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#### 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. A Mayor and sixteen (16) members of the Municipal Legislature who are elected for a four-year term govern the Municipality.

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 basic 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 entities that are legally separate organizations that are included in the Municipality's reporting entity because of the significance of their operating of financial relationship with the Municipality by the nature and significance of the relationship between the entity and a primary government.

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

- **Port of Ponce ("POP")** was formed as a result of an Ordinance No. 258 (Series 1911), 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. However, CODEPCOVI closed its operations effective June 30, 2006.
- **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 a special corporation on Resolution No. 15. (Series 1992-93)

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- **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 a 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  
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 (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, 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 Municipality's activities are considered governmental type. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- 1) Invested in capital assets, net of related debt – these consist of capital assets, less accumulated depreciation and reduced by any outstanding debt that are attributed to the acquisition, construction or improvement of those assets.
- 2) Restricted net assets – these result when constraints placed on net asset use are either externally imposed by grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted net assets – these consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Amounts reported as program revenue 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.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenue are reported instead as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

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 as others.

### 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. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, **the Municipality** considers most revenue to be available if collected within 90 days after the end of the current fiscal period. Expenditures are generally 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. Modifications to the accrual basis of accounting are shown in pages 19 and 22.

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 revenue 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 Municipality**.

**The Municipality** reports the following major governmental funds:

General fund - This is the operating fund of **the Municipality**. It is used to account for all financial transactions, except those required to be accounted for in another fund.

HUD Grant fund - 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 fund ("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 fund ("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 fund - This fund accounts for the accumulation of resources predominantly for, and the payment of, principal and interest on long-term general obligation debt of governmental funds.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### 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 separate bank accounts, from those of the primary government, in their own names.

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 the payment and guarantee of notes and interest payable, bonds and other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

### Receivables

Accounts receivable 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 that are deemed fully collectible. The accounts receivable from nongovernmental customers are net of estimated uncollectible amounts.

### Interfund receivables and payables

The Municipality has the following types of transactions among funds:

Operating transfers – Operating transfers are 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. The operating transfers are: (1) indirect cost reimbursement paid by federal grants to general fund and (2) debt service's interest revenue provided for operational activities of the general fund as established by state laws, principally.

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.

### Inventories

Generally, inventories are valued at cost and predominantly on the first-in, first-out method. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

### Capital assets

Capital assets, which include land, land improvements, construction in progress, buildings, building improvements, machinery, 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 activities and component units columns in the statement of net assets.

Capital assets purchased or acquired are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value at the time of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add value to the assets or materially extend assets lives, are expensed as incurred. **The Municipality** defines capital assets as assets, which have an initial, individual cost of \$25 or more at the date of acquisition. Such amount has been determined by the Basic Standards of the Municipalities of Puerto Rico, which is the guide that regulates the Municipalities. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Major outlays for capital assets and improvements are capitalized as projects are constructed in governmental-wide financial statements.

**The Municipality** reviews the carrying value of its long-lived capital assets for possible impairment whenever events or changes in circumstances indicated that the carrying amount of the assets might not be recoverable. Any long-lived capital assets held for disposal are reported at the lower of their carrying amounts or fair value (donated assets). **The Municipality** has not identified any significant impairment of its long-lived assets as of June 30, 2006.

Depreciation expense is recorded in the governmental-wide financial statements, as well as the component units' financial statements. Depreciation in capital assets is calculated on the straight-line method over the following assets' estimated useful life:

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

There is no depreciation recorded for land and construction in progress.

### Works of art and historical treasures

At June 30, 2006, **the 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.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- 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 Ponce’s former 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 Municipality 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.

### Deferred revenues

Deferred revenue at the governmental fund level arises when potential revenue does not meet neither the “measurable” or the “available” criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Municipality has a legal claim to them, as when grant moneys are received prior incurring the qualifying expenditures.

### Reservations of fund balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use. 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 - Represents 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, 2006 amounted to approximately \$2.03 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.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### Long-term debt

The liabilities reported in the governmental-wide financial statements include the Municipality's public improvements bonds, general and special obligations bonds, general and special refunding obligations bonds, rent bond, loan guarantee assistance notes, and long-term liabilities including: property tax advances, LIMS refinancing debt, interest due for accounts sold, legal claims and compensated absences. Long-term obligations financed by component units are recorded as liabilities in the discretely presented component unit's column.

### Compensated absences

The vacation policy of the Municipality generally provides for the accumulation 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 of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid 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 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 (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Municipality. For the fiscal year ended June 30, 2006, post employment benefits for 765 retirees amounted to \$99,972. These benefits are recorded as expenditures when paid in the general fund.

### 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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
43	Financial Reporting for Post-Employment Benefit Other than Pension Plans	2006-07
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2007-08
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2007-08

The impact of these statements on the Municipality's basic 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 (that is, purchase orders, contracts) are considered expenditures when commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations within GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. At the end of the year, the unencumbered balance of any appropriations of the general fund will lapse immediately. Appropriations, other than in general fund, 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, 2006, this commitment amounted to approximately \$10,330,993.

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, 2006 representing the original budget and the amended budget.

## 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, Continued

### 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, timing, and basis differences in the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2006 is presented below for the general fund:

	General Fund
Deficiency of expenditures over revenues - budget basis	<u>\$ (2,008,305)</u>
Entity differences:	
Non-budgeted revenues	16,717,211
Non-budgeted expenses	(43,931,804)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(163,624)
Current year encumbrances recorded as expenditures for budget purposes	<u>224,729</u>
Basis of accounting differences - net change	<u>(27,153,488)</u>
Deficiency of revenues over expenditures - GAAP basis	<u>\$ (29,161,793)</u>

### Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budget indicating: (1) interest, amortization and retirement public debt, (2) statutory obligations, (3) judicial claims payments, (4) any amount to cover prior years deficit, (5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. The Municipality's management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for the debt service fund.

## 3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 \$243 millions differences are as follows:

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

General and special obligations	\$ 148,130,000
Property tax advances	64,440,074
Loan guarantee notes	6,915,000
Claims and judgments	2,257,269
Compensated absences	15,597,013
LIMS refinancing debts	2,355,287
Interest due on sale of accounts	<u>3,181,745</u>
	<u>\$ 242,876,388</u>

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, Continued

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

Total capital assets, net of accumulated depreciation	<u>\$ 258,403,018</u>
Deduct:	
Bonds payable:	
Purchase of equipment	995,000
Ordinance (Series 1983-84)	7,035,000
Ordinance (Series 1990-91)	12,299,369
Ordinance (Series 1996-97)	11,265,000
Ordinance (Series 1992-93)	3,800,000
Ordinance (Series 1998-99)	3,020,000
Ordinance (Series 2000-01)	31,447,602
Ordinance (Series 2001-02)	34,420,974
Ordinance (Series 2003-04)	20,830,000
Section 108 Loan Guarantee	<u>6,915,000</u>
	<u>132,027,945</u>
Invested in capital assets, net of related debt	<u>\$ 126,375,073</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 Secretary of the Treasury Department of the Commonwealth holds all securities pledged as collateral. 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. Cash and cash equivalents consist of interest-bearing accounts, non-interest bearing accounts and certificates of deposits. The carrying amount of deposits with financial institutions at June 30, 2006 consists of the following:

	<u>Carrying Amount</u>		<u>Total</u>	<u>Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
Commercial banks	\$ 7,803,922	\$ 34,041,066	\$ 41,844,988	\$ 43,152,753
Governmental Development Bank		36,141,664	36,141,664	36,169,366
Component units' banks	<u>3,521,306</u>	<u>431,964</u>	<u>3,953,270</u>	<u>3,989,020</u>
Total	<u>\$ 11,325,228</u>	<u>\$ 70,614,694</u>	<u>\$ 81,939,922</u>	<u>\$ 83,311,139</u>

Custodial credit risk is the risk that in the event of bank failure, the Municipality's deposit might not be recovered. At year-end, the Municipality's bank balance of deposits in commercial banks amounting of \$83.3 millions was covered by FDIC and by collateral held by the Commonwealth's agent in the Commonwealth's name.

## 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, 2006, presented as non current liabilities in the government-wide financial statements amounted to approximately \$65.3 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 19.

## 5. PROPERTY TAXES, Continued

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.

## 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, 2006. 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**

Interfund transactions, which are expected to be repaid on or before June 30, 2008, are as follows:

	<b>Amount</b>	<b>Purpose</b>
HUD grants:		
Section 8 - Voucher	\$ 1,040,274	Reimbursable expenditures
Loan guarantee	675,402	Reimbursable expenditures
CDBG	458,571	Reimbursable expenditures
Others	<u>108,196</u>	Reimbursable expenditures
Total HUD grants	<u>2,282,443</u>	
HHS grants:		
Head Start	<u>656,767</u>	Reimbursable expenditures
Others		
Homeland Security	436,172	Reimbursable expenditures
FEMA	271,552	Reimbursable expenditures
Others	<u>169,079</u>	Reimbursable expenditures
Total Others	<u>876,803</u>	
Total advances between funds	<u>\$ 3,816,013</u>	

Interfund transfers between the general fund and debt service fund of approximately \$4,718,318 represent interest income received from the additional special property tax bank account. Interfund transfers from WIA Fund and HUD Fund to General Fund of approximately \$191,293 represent indirect cost recovery. Interfund transfers from Others to General fund of approximately \$84,316 represent operational transfer.

**8. ACCOUNTS RECEIVABLE - NET OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Accounts receivable at June 30, 2006, consist of the following:

	<b>Gross Amount</b>	<b>Allowance</b>	<b>Net Amount</b>
Municipal license tax	<u>\$ 190,741</u>	<u>\$ 9,082</u>	<u>\$ 181,659</u>
Others	<u>\$ 390,674</u>	<u>\$ 14,157</u>	<u>\$ 376,517</u>

## 9. DUE FROM GOVERNMENT

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

### Local governments:

Municipal Revenue Collection Center (CRIM)	\$ 195,581
Council of Occupational Development and Human Resources	1,547,707
Department of Justice – “Ponce en Marcha” Settlement	4,695,075
Special Community	1,486,573
Police Department	161,109
Department of Education	130,450
Rural Development Corp.	<u>110,118</u>
Total due from local governments, page 17	8,326,613
Municipal Revenue Collection Center, page 19	<u>717,033</u>
Total due from local governments, page 14	<u>\$ 9,043,646</u>

### Federal governments:

Others - FEMA	\$ 266,506
Others funds – Homeland Security	664,598
Others funds – USDA	106,348
HHS Funds - Ryan White	220,586
HHS Funds – Head Start	84,450
General Fund - HHS	25,029
HUD - CDBG	3,013,314
HUD - HOME	89,192
HUD - UDAG	61,074
HUD - Emergency Shelter	<u>46,367</u>
Total due from federal governments	<u>\$ 4,577,464</u>

## 10. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

Primary Government Governmental Activities	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 26,728,024	20,737,537		\$ 47,465,561
Construction in progress	<u>40,573,722</u>	<u>\$ 16,870,054</u>	<u>\$ 11,278,013</u>	<u>46,165,762</u>
Total capital assets, not being depreciated	<u>67,301,746</u>	<u>37,607,591</u>	<u>11,278,013</u>	<u>93,631,323</u>
Capital assets, being depreciated:				
Buildings and building improvements	34,270,325	33,954,780		68,225,105
Land improvements	2,627,172			2,627,172
Machinery and equipment	36,003,426	4,905,884	248,115	40,661,195
Infrastructure	<u>100,800,565</u>	<u>4,640,493</u>		<u>105,441,058</u>
Total capital assets, being depreciated	<u>173,701,488</u>	<u>43,501,157</u>	<u>248,115</u>	<u>216,954,530</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,199,990	454,513		8,654,503
Land improvements	537,222	47,289		584,511
Machinery and equipment	21,125,983	1,702,444	202,084	22,626,342
Infrastructure	<u>18,495,388</u>	<u>1,822,091</u>		<u>20,317,479</u>
Total accumulated depreciation	<u>48,358,583</u>	<u>4,026,337</u>	<u>202,084</u>	<u>52,182,835</u>
Total capital assets, being depreciated, net	<u>125,342,905</u>	<u>39,474,820</u>	<u>46,031</u>	<u>164,771,695</u>
Governmental activities capital assets, net	<u>\$ 192,644,651</u>	<u>\$ 77,082,411</u>	<u>\$ 11,324,044</u>	<u>\$ 258,403,018</u>

The 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 Pachin Vicéns and the Paquito Montaner Stadium to the Municipality. The facilities were transferred in October 5, 2005 and were recorded at its fair market value. The Ordinance No. 10 (2005-06) authorized the Mayor to realize this process.

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006 were as follows:

Funds	Vendors	Salaries and Benefits	Total
General fund	\$ 16,317,182	\$ 637,293	\$ 16,954,475
HUD programs	1,139,378	144,409	1,283,787
WIA programs	306,096	46,714	352,810
HHS programs	528,661		528,661
Other governmental funds	<u>410,399</u>	<u>-</u>	<u>410,399</u>
Total on balance sheet	<u>\$ 18,701,716</u>	<u>\$ 828,416</u>	19,530,132
Plus obligation paid with CAE funds			<u>5,640,000</u>
Total on statement of net assets			<u>\$ 25,170,132</u>

## 12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2006 was as follows:

Puerto Rico Electric Power Authority	\$ 2,213,587
Puerto Rico Public Building Authority	1,938,560
CRIM	826,169
Puerto Rico Water and Sewer Authority	668,145
U.S. Housing Urban Development Department	<u>1,184,072</u>
Total	<u>\$ 6,830,533</u>

## 13. INTERGOVERNMENTAL REVENUES

Following is a detail of intergovernmental revenues:

Federal agencies:

U.S. Health and Human - Ryan White	\$ 2,174,413
U.S. Health and Human -Head Start	11,800,906
U.S. Department of Labor - Workforce Investment Act	5,159,440
U.S. Dept. of Housing Urban Development - Emergency Shelter	221,175
U.S. Dept. of Housing Urban Development - CDBG-Entitlement	5,919,594
U.S. Dept. of Housing Urban Development -Section 8 Choice Voucher	8,326,740
U.S. Dept. of Housing Urban Development -Section 8 - Moderate I and II	717,644
U.S. Dept. of Housing Urban Development -HOME Investment Partnership	695,402
U.S. FEMA	319,443
U.S. Department of Justice - Local Law Enforcement Grant	55,556
U.S. Department of Agriculture - USDA	764,437
U.S. Department of Justice - Homeland Security	561,730
Others	<u>95,893</u>

Total federal agencies \$ 36,812,373

State agencies:

Communities Rehabilitations Projects - Special Communities Trust	\$ 3,032,391
Puerto Rico Department of Natural Resources	74,800
Puerto Rico Electric Power Authority	7,856,176
Subsidy and Lottery of Puerto Rico - CRIM	2,556,708
Other intergovernmental revenues	3,408,977
Reimbursement from the Commonwealth of Puerto Rico of christmas bonus expenditure	1,381,236
Citizen Participation for the Municipal Development Program - CRIM	263,859
Rural Development Projects	<u>177,897</u>

Total state agencies \$ 18,752,044

#### 14. DEFERRED REVENUES

##### Municipal license tax

The deferred revenues of approximately \$16.3 millions in the general fund related to municipal license tax collected in fiscal year 2005-06 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 – HOME Incomes	\$	223,723
USDA		313,974
Home Investment Partnership Recaptures		453,003
UDAG		94,540
Community Development Block		45,868
Ryan White		32,288
Child Care		50
Other grants		<u>126</u>
Total	\$	<u>1,163,572</u>

## 15. LONG-TERM DEBT

Bonds outstanding at June 30, 2006 consist of:

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%	\$ 390,000
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%	5,255,000
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 %	1,810,000
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%	28,580,000
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%	11,765,000
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%	10,015,000
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%	12,415,000
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%	11,155,000
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%	14,945,000
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%	4,265,000
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>7,535,000</u>
Total outstanding bonds	<u>\$ 148,130,000</u>

15. LONG-TERM DEBT, Continued

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

	<b>Principal</b>	<b>Interest</b>
2006 - 2007	\$ 45,145,000	\$ 6,929,612
2007 - 2008	5,070,000	5,109,858
2008 - 2009	5,380,000	4,877,414
2009 - 2010	5,785,000	4,625,050
2010 - 2011	6,170,000	4,349,348
2011 - 2016	24,975,000	17,770,786
2016 - 2021	26,075,000	12,052,242
2021 - 2026	24,795,000	4,936,662
2026 - 2028	<u>4,735,000</u>	<u>425,634</u>
	<u>\$ 148,130,000</u>	<u>\$ 61,076,606</u>

Loan guarantee assistance notes (LGA)

These notes are payable in annual aggregate principal installments of \$540,000 to \$1,210,000, 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, 2006 is \$6,915,000.

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

	<b>Principal</b>	<b>Interest</b>
2006 - 2007	\$ 1,210,000	\$ 358,318
2007 - 2008	920,000	309,958
2008 - 2009	940,000	263,733
2009 - 2010	540,000	223,900
2010 - 2011	540,000	191,446
2011 - 2016	<u>2,765,000</u>	<u>446,986</u>
	<u>\$ 6,915,000</u>	<u>\$ 1,794,341</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, 2006 amounted to approximately \$1.1 billions. At June 30, 2006, the Municipality has a financing level margin of \$31.5 millions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

## 15. LONG-TERM DEBT, Continued

Long-term debt activity for the year ended June 30, 2006 was as follows:

Primary Government Governmental Activities	Balance at June 30, 2005	Payment Principal	Interest	Increase	Balance at June 30, 2006	Due within One Year
Public improvements bonds	\$ 2,170,000	\$ 1,780,000	\$ 138,271		\$ 390,000	\$ 390,000
General obligation bonds	65,715,000	3,360,000	3,388,765	\$	62,355,000	3,570,000
General refunding obligation bonds	10,240,000	225,000	530,946		10,015,000	245,000
Special refunding obligations bonds	24,170,000	600,000	1,225,360		23,570,000	650,000
Special obligation bonds	12,065,000	265,000	619,515		11,800,000	290,000
Loan guarantee assistance (LGA) notes	9,910,000	2,995,000	355,197		6,915,000	1,210,000
Rent bond	40,000,000		2,001,988		40,000,000	40,000,000
<b>Subtotal</b>	<b>164,270,000</b>	<b>9,225,000</b>	<b>8,260,042</b>		<b>155,045,000</b>	<b>46,355,000</b>
Property tax advance - CRIM	61,915,468		3,350,774		65,266,242	826,169
LIMS Refinancing debt - CRIM	2,707,744	352,457	155,945		2,355,287	508,402
Interest due for accounts sold - CRIM	3,403,437	221,691			3,181,746	221,223
Claims and judgment	701,029	32,533		1,588,773	2,257,269	116,870
Compensated absences	15,278,493	2,897,560		3,216,080	15,597,013	5,086,532
<b>Subtotal</b>	<b>84,006,171</b>	<b>3,504,241</b>	<b>3,506,719</b>	<b>4,804,853</b>	<b>88,657,557</b>	<b>6,759,196</b>
<b>Total long-term debt</b>	<b>\$ 248,276,171</b>	<b>\$ 12,729,241</b>	<b>\$ 11,766,761</b>	<b>\$ 4,804,853</b>	<b>\$243,702,557</b>	<b>\$ 53,114,196</b>
Less current portion of CRIM (see note 12)					(826,169)	(826,169)
					<b>\$242,876,388</b>	<b>\$ 52,288,027</b>

## 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 full time 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.

## 16. RETIREMENT PLAN, Continued

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. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. 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 up 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. Law establishes contributions' requirements. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2006 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 \$3.8 millions and \$3.7 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 (RMD) of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the RMD compiles the information of all property owned and its respective market value. After evaluating this information, the RMD 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. 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, 2006, amounted to approximately \$1.8 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, 2006 of approximately \$9.9 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,	
2007	\$ 1,151,159
2008	1,151,159
2009	1,151,159
2010	1,151,159
2011	<u>1,151,159</u>
Total	<u>\$ 5,755,795</u>

## 19. 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 \$2.3 millions at June 30, 2006. 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 \$1.5 millions at June 30, 2006 and will not affect the financial condition of the Municipality.

## 19. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER, Continued

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, 2005, and 2006 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. All defendants to the Circuit Court appealed the judgment 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, 2006, the Municipality received approximately \$3.6 millions related to this case.

## 20. 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, 2006, revenues earned under the agreement amounted to \$2.3 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, 2006, the estimated remaining life was approximately 8.5 years.

## 20. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS, Continued

The Municipality formalized an agreement with BFI of Ponce Inc. for the gather, transportation and disposal of municipal waste with period of eight (8) years from July 1, 2001 to June 30, 2009. Under this agreement, BFI assume all related costs in the use of the landfill, 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.

## 21. SUBSEQUENT EVENTS

During the fiscal year ended June 30, 2006, the Municipal Legislature approved the Ordinance No. 76 (2005-06) establishing a citizenship contribution of 1%, known as "León tax", over all transactions of sales of goods and services made on Ponce's boundaries. The contribution was effective in July 1, 2006. According to the Ordinance, these new resources will be principally used in the following activities; improvements in health services, to cover the increasing in solid waste disposal costs, public construction, security, social welfare and maintenance of culture and sport facilities.

At September 15, 2006, the Port of the Americas Authority assumed the rent obligation bond for the amount of \$40 millions. This money was used in the improvements made in various piers of the Port of Ponce.

## 22. RESTATEMENT OF 2005 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2006, the Municipality noted that certain liabilities had been overstated or understated as of June 30, 2005 and accordingly, the net assets at June 30, 2005, as previously reported, has been increased by \$1,510,619 and the fund balance of the general, WIA, HUD, HHS and Other funds at June 30, 2005, as previously reported, have been increased by \$792,821, \$97,283, \$507,193, \$24,342 and \$88,980, respectively. A summary of the effects of the restatements in the fiscal year 2004-05 financial statements is as follow:

22. RESTATEMENT OF 2005 FINANCIAL STATEMENTS, Continued

	<u>General</u>	<u>WIA</u>	<u>HUD</u>	<u>HHS</u>	<u>Others</u>	<u>Total</u>
Amount overstated in accounts payable	\$ 1,255,509					\$ 1,255,509
Corrections in accounting transactions	92,178	\$ 97,283	\$ 191,863			381,324
Net amount in corrections of prior year accounts payable to suppliers	(82,301)		1,772			(80,529)
Change in accounting principles (GASBS no. 33)			1,340,422	\$ 24,342	\$ 88,980	1,453,744
Overstated of Investments	(200,000)					(200,000)
Accounts receivable overstated	(92,254)		(1,026,864)			(1,119,118)
Amount due on AEE	<u>(180,311)</u>					<u>(180,311)</u>
 Total	 <u>\$ 792,821</u>	 <u>\$ 97,283</u>	 <u>\$ 507,193</u>	 <u>\$ 24,342</u>	 <u>\$ 88,980</u>	 <u>\$ 1,510,619</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN 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, 2006, which collectively comprise **the Municipality's** basic financial statements and have issued our report thereon dated December 22, 2006. 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 2006-01 (FS), 2006-02 (FS), 2006-04 (FS), 2006-05 (FS) and 2006-07 (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 2006-02 (FS), 2006-03 (FS), 2006-05 (FS), 2006-07 (FS) and 2006-08 (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 2006-01 (FS), 2006-02 (FS), 2006-03 (FS), 2006-04 (FS), 2006-05 (FS), 2006-06 (FS), 2006-07 (FS) and 2006-08 (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.

December 22, 2006



License number 6  
Ponce, Puerto Rico

Stamp number 2205937 was  
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, 2006. **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 an 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 2006-01 (FA) thru 2006-28 (FA) in the accompanying schedule of findings and questioned costs, **the Municipality** did not comply with certain requirements regarding to allowable costs / cost principles, cash management, eligibility, equipment and real property management, period of availability of federal funds, procurement and suspension / debarment, program income, reporting, subrecipient 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)
HOME Investment Partnership Program	(CFDA No. 14.239)
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, 2006.

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 2006-01 (FA), 2006-02 (FA), 2006-03 (FA), 2006-04 (FA), 2006-06 (FA), 2006-07 (FA), 2006-08 (FA), 2006-09 (FA), 2006-10 (FA), 2006-11 (FA), 2006-12 (FA), 2006-13 (FA), 2006-14 (FA), 2006-15 (FA), 2006-16 (FA), 2006-17 (FA), 2006-18 (FA), 2006-19 (FA), 2006-20 (FA), 2006-21 (FA), 2006-22 (FA), 2006-23 (FA), 2006-24 (FA), 2006-25 (FA), 2006-26 (FA), 2006-27 (FA) and 2006-28 (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 2006-01 (FA), 2006-02 (FA), 2006-06 (FA), 2006-07 (FA), 2006-10 (FA), 2006-11 (FA), 2006-16 (FA), 2006-18 (FA), 2006-19 (FA), 2006-20 (FA), 2006-21 (FA), 2006-22 (FA), 2006-23 (FA), 2006-24 (FA), 2006-26 (FA) and 2006-27 (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.

December 22, 2006

License number 6  
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, 2006

Federal Grantor/Program Title	Federal CDFA Number	Pass through Grantor Number	Federal Disbursements/ Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
<u>Pass through program</u> - Commonwealth of Puerto Rico			
Education Department – Child and Adult Care Food Program	10.558	CCC-049	\$ 772,222
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
<u>Direct programs:</u>			
Community Development Block Grant (CDBG) Program, Entitlement Grants	14.218		9,478,988
Emergency Shelter Grants Program	14.231		221,176
HOME Investment Partnerships Program	14.239		691,644
Section 8 Housing Choice Voucher	14.871		7,555,047
Section 8 – Project – Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 – Moderate Rehabilitation I	14.856		474,096
Section 8 – Moderate Rehabilitation II	14.856		146,026
 Total U.S. Department of Housing and Urban Development			 <u>18,566,977</u>
<b>U.S. DEPARTMENT OF LABOR:</b>			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258		1,903,801
Youth Activities	17.259		1,525,491
Dislocated Workers	17.260		1,165,285
 Total U.S. Department of Labor			 <u>4,594,577</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, 2006

Federal Grantor/Program Title	Federal CDFA Number	Pass through Grantor Number	Federal Disbursements/ Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
<u>Direct programs:</u>			
Administration for Children, Youth, and Families – Head Start	93.600		\$ 11,788,338
HIV Emergency Relief Project Grants	93.914		<u>2,174,413</u>
Total U.S. Department of Health and Human Services			<u>13,962,751</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
<u>Pass through programs:</u>			
Bulletproof Vest Partnership Grant	16.607		35,035
Commonwealth of Puerto Rico Department of Justice-Local Block Law Enforcement Grant	16.592	2000-LB-BX	<u>55,614</u>
Total U.S. Department of Labor			<u>90,649</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Justice:			
Homeland Security Grant Program	97.067	2004-GE-T4-0008	561,730
Supplemental Implementation Grant	97.2000-LB-PMB	2000-LB-PMP	<u>998</u>
Total U.S. Department of Homeland Security			<u>562,728</u>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION:</b>			
<u>Pass through program</u> - Commonwealth of Puerto Rico – Governor Office		FEMA-1613-DR-PR	<u>123,404</u>
<b>TOTAL</b>			<u>\$ 38,673,308</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**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:

	<b>Expenditures</b>
Total federal expenditures per schedule	<u>\$ 38,673,308</u>
Federal expenditures per basic financial statements included herein:	
Housing and Urban Development Grants	\$ 19,541,585
Plus Transfer Out	83,493
Less Loan Guarantee Notes	<u>(1,058,101)</u>
	<u>18,566,977</u>
Health and Human Services Grants	<u>13,962,751</u>
Workforce Investment Act Grants	4,486,777
Plus Transfer Out	<u>107,800</u>
	<u>4,594,577</u>
Others	<u>1,549,003</u>
Total	<u>\$ 38,673,308</u>

**3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)**

During the fiscal year ended June 30, 2006, the Municipality provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 2,043,849
Community Development Block Grant (CDBG) - Program Entitlement Grants (14.218)	721,467
Emergency Shelter Grants Program (14.231)	<u>138,455</u>
Total	<u>\$ 2,903,771</u>

**4. SECTION 108 LOAN PAYMENTS**

For the fiscal year ended June 30, 2006, the Municipality paid the amount of \$2,650,197 in principal plus interest 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, 2006

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**PART I - SUMMARY OF AUDITORS' RESULTS**

- 1) The independent auditors' report on the basic financial statements of the Municipality of Ponce expressed an unqualified 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. Head Start Program CFDA No. 93.600
  2. HIV emergency Relief Project Grants CFDA No. 93.914
  3. Community Development Block Grant Program/Entitlement CFDA No. 14.218
  4. HOME Investment Partnership Program CFDA No. 14.239
  5. Section 8 Housing Choice Vouchers CFDA No. 14.871
- 7) A threshold of \$1,157,547 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 2006-01 (FS) - Operating deficit of general fund

#### 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 (Mayor's fund). The Municipality closed its fiscal years ended June 30, 2006 and 2005 with a general fund deficiency of approximately \$17.9 and \$21.3 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 40 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 this fund 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 for fiscal year 2005-06, the Finance Department controls the operational budget generating a surplus for the fiscal year 2005-06 of \$40,906 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. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

### Finding number 2006-02 (FS) – Accounting management system (MW)

#### 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, capital assets and long-term debt analysis were prepared using the spreadsheet software. In addition, we noted the following:

1. 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.
2. A federal bank account has an overdraft balance by \$24,000, approximately, caused by outstanding checks that were cancelled by stop payments made by Municipal Treasurer.

Finding number 2006-02 (FS) – Accounting management system (MW), Continued

3. Some state funds trial balances without accounts receivable balances to cover accrued liabilities at end of year. As a result of our test, we noted that several bills to governmental entities which were not recorded in general ledger.
4. Asuntos para la Vejez - Perla del Sur's bank reconciliation was not prepared as of June 30, 2006 because the bank period for the bank statement at year-end was from 6/9/2006 to 7/31/2006.

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 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 restrict the adequate response of management in financial public affair issues.

Recommendation

We recommend financial trainings to the accountants in charge in the preparation of financial and statistical reports to ascertain that the accounting system comply with legal requirements and governmental accounting pronouncements.

Finding number 2006-03 (FS) - Municipal license tax revenues (MW)

Condition

We have performed audit procedures to thirty-four (34) municipal license tax returns (the tax return) and noted the following exceptions:

1. In two (2) taxpayer files examined, the tax return did not include the required audited financial statements.
2. In one (1) taxpayer file examined, the taxable revenues included in the tax return were for one operational month. However, the audited financial statements have twelve months of operations.
3. There is no evidence in one (1) taxpayer file of tax exemption granted.
4. In six (6) taxpayer files examined, we noted that the revenues reported in the audited financial statements did not reconcile with revenues recorded in the tax returns filed.

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

The lack of effective monitoring internal control procedures over tax return filed.

Finding number 2006-03 (FS) - Municipal license tax revenues (MW), Continued

Effect

The ineffective 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 their personnel working with the review of the tax returns filed adequately, including at the supervisory level.

Finding number 2006-04 (FS) - Capital assets, work of art and historical treasures

Condition

*Capital Assets:*

1. In the evaluation of real property records, we noted that the donated facilities Auditorium Pachin Vicéns and the Paquito Montaner Stadium have not CRIM's appraisal certification as required by Law No. 537 of September 30, 2004. The Municipality made an internal study using actual cost of similar assets.
2. In one land acquisition out of seven examined, the title of the property was not available for our examination.

*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 established formal procedures for the use and disposition of works of art and historical treasures.

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.

Finding number 2006-05 (FS) – Construction licenses permits/excise taxes (MW)

Condition

We have performed audit procedures to fifteen (15) construction excise taxes files and noted the following exceptions:

- 1) Three (3) files examined were not available for our examination and accordingly, we were unable to evaluate the following documents; Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. As a consequence, we can not recompute the applicable construction excise taxes calculated by the Municipality.
- 2) In seven (7) files examined, the Declaration of Construction Activity was not available for our examination.
- 3) In seven (7) files examined, the Finance Department's acceptance letter of Declaration of Construction Activity was not available for our examination.
- 4) In the cases of the Central Government's construction works, we noted that the file did not include the Notice of Requirement for Issuing Permits.

Criteria

Article 8.015 of Law # 81 of August 30, 1991, as amended, establishes that the Municipality should follow regulations approved by the Treasury Department Secretary related with the document conservation of fiscal nature for the examination of accounts and fiscal government operations, in conformity with Law # 5 of December 8, 1955, which establishes the Conservation and Disposition Program of Public Documents. Section 3 of Ordinance # 113, Series 2004-2005 establishes that a Declaration of Construction Activity must be submitted for the Finance Department and Budget. Section 4 of Ordinance # 113 Series 2004-2005 establish the issuing of acceptance or rejection letter for the estimated construction costs during the next 15 days after the submission of the Declaration.

Cause

The lack of effective Permits Office's internal procedures in order to comply with Ordinance # 113, Series 2004-2005 and Article 8.015 of Law.

Effect

Revenues from construction excise taxes could be erroneously computed as part of the lack of supporting documents. Specifically, the supporting documents which validate the computation of the construction excise taxes.

Recommendation

The Permits Office in conjunction with the Finance and Budget Department should strengthen the Municipality's internal controls procedures to assure that the construction excise taxes files are complete and comply with the applicable ordinance.

Finding number 2006-06 (FS) – Bid Board's procurement management system

Condition

We have performed audit procedures to fifteen (15) bids and noted the following exceptions:

- 1) In four (4) bids examined, five bidders did not submit certain documents as required by bid announcement. However, the bids were adjudicated.
- 2) In one (1) bid examined, one bidder was not notified by certified mail of the bid adjudication.

Finding number 2006-06 (FS) – Bid Board’s procurement management system, continued

- 3) In one (1) bid examined, the Certification of Funds issued by the Finance Department was received after the bid announcement was published in the newspaper.

Criteria

Chapter VIII, Section 9, Incise (1) of Revised Regulations of Basic Procedures from the Municipal Affairs Commissioner Office establishes the procedures to be followed about the adjudication of bid to those who complied with all requirements. Article 10.001, Paragraph 7 and Article 10.006, Incise (a), Paragraph 3 of Autonomous Municipal Law (Law # 81 of August 30, 1991, as amended) establish the procedures to be followed by the Bid Board about notification by certified mail of non-adjudicated bidders. Article 10.007, Incise (b) of Autonomous Municipal Law establishes the requirement for Certification of Funds from Finance Department. Bid Board’s Regulations of the Autonomous Municipality of Ponce, created under Municipal Legislation Num. 31, Series 2002-2003 of February 18, 2003, establishes further procedures to be followed in the bidding process

Cause

The Bid Board lacks of an effective filing control over the bidding procedures in the qualification of the bidders. The Bid Board did not have effective follow up procedures to assure of the availability of funds with the Finance Department before the publication of bid notice.

Effect

The lack of effective internal controls over bidding procedures could affects to the Municipality to obtain qualified and competent bidders in compliance with state laws and regulations. Also, the lack of effective procedures in the adjudication of the bidder’s offers could cause legal matters by non adjudicated bidders.

Recommendation

**The Municipality** should strengthen the internal control procedures established by the Bid Board to ascertain that the bids are in compliance with the requirements established by the bid notice. The Board could use, among other things, checklists and questionnaires.

Finding number 2006-07 (FS) – Disbursement voucher process (MW)

Condition

We have examined sixty (60) disbursement vouchers and noted the following exceptions:

- 1) In one (1) voucher examined, the purchase requisition did not have an authorized officer signature.
- 2) In four (4) vouchers examined, purchase acquisitions were paid without compliance of bid procedures (competition).
- 3) In one (1) voucher examined, the purchase order was prepared and dated after the invoice date.
- 4) In one (1) voucher examined, we noted that a portion of the construction contract cost obligated the next fiscal year budget instead of the fiscal year in which the contract was adjudicated.

Finding number 2006-07 (FS) – Disbursement voucher process (MW), Continued

Criteria

Chapter VIII, Section 7 of Revised Regulations of Basic Procedures from the Municipal Affairs Commissioner Office establishes the procedures to be followed about Pre-intervention of document as to authorization, completion and revision before disbursement is done. Chapter VIII Section 1 of Revised Regulations of Basic Procedures from the Municipal Affairs Commissioner Office and Article 10.001 of Law #81 of August 30, 1991, as amended, establish the thresholds in the acquisitions of services or goods by public bid.

Article 8.004 Incise (b) of Law # 81 establishes that amounts to be expended or oblige during the fiscal year could not exceed the authorized assignments or funds, neither contract nor negotiation signed during a fiscal year could be charged to future fiscal budget appropriations. Joint Resolutions approved by State Legislature establish the purposes and the specific concepts in which the funds are delegated and could be use for.

Cause

The ineffective internal controls in the disbursement of funds did not comply with law and regulations.

Effect

The lack of effective internal controls over disbursements area represent that **the Municipality** is not in compliance with laws and regulations concerning disbursements procedures.

Recommendation

**The Municipality** should evaluate its internal controls over disbursements and ascertain that comply with the applicable laws and regulations.

Finding number 2006-08 (FS) – Contract procurement process (MW)

Condition

We have performed audit procedures to fourteen (14) contracts adjudicated during the year for various services with their respective supporting documents and noted the following exceptions:

- 1) In nine (9) contracts examined, the Certification of Funds issued by the Budget Department was prepared after the contract was signed and dated, and in two (2) of them, no evidence of Certification of Funds was available for examinc.
- 2) In seven (7) contracts examined, the contracts were filed in the Office of the Controller of Puerto Rico after the 15 days period required.
- 3) In seven (7) contracts examined, the clause of penalties and/or remedies in case of breach of contract was not included.
- 4) In six (6) contracts examined, the oath declaration required by Law #428 of September 22, 2004 was not included.
- 5) In one (1) contract examined, the Certificate of Incorporation was not submitted.
- 6) In two (2) contracts examined, the clause for the income tax withholding in the origin was not included.

Finding number 2006-08 (FS) – Contract procurement process (MW), Continued

Criteria

1. Chapter IV Section 9 of the Revised Regulation of Basic Procedures establishes that the Finance Director should make the payment of municipality obligations only when credits exist, not used or compromised, legally budgeted or transferred and when such expenditure is accordingly checked or justified by documents presented by interested party.
2. Law # 18 of October 30, 1975, as amended, establishes that a copy of contracts awarded, including amendments to those should be remitted to the Controller's Office of Puerto Rico in the fifteen (15) days of contract or amendment awarding.
3. Law # 237 of August 31, 2004 establishes for the construction of works, the adoption of General Condition Report for Public Insular Works Contracting. The Law requires, among other things, the consideration of including the penalties or liquidating damages clause for the lateness compliance and incentives for early or accelerated compliance of the construction.
4. Law # 428 of September 22, 2004 establishes that all natural or legal person or entity that wants to participate of a bid adjudication or contract awarding with the municipality for the realization of services or sale or delivery of goods, should submit an oath declaration with a public notary in which informs if proponent has been convicted or declared guilty of any legislative, legal or administrative crimes, of Puerto Rico, the United States of America or any other country, to permit the participation in the adjudication or awarding of any bid or contract, respectively.
5. The Request for Proposal (RFP) requests, among other things, the copy of Certificate of Incorporation in the case proponent is a legal entity, since from this document depends which other certifications and documents should be submitted accompanying the RFP.
6. Article 5(I) of Law # 237 of August 31, 2004 establishes a contract a clause about the correspondent withholding obligations established in the Internal Revenue Code.

Cause

This condition may cause a lack of effective internal controls procedures over disbursement of funds. Also, this condition may cause a lack of properly follow up procedures to comply with applicable law and regulations in force for contract procurement process.

Effect

The lack of effective internal controls of the Finance Department in the above mentioned procedures affects the **Municipality** in the application of the applicable laws and regulations.

Recommendation

**The Municipality** should evaluate its internal controls procedures periodically to ascertain that its comply with the laws and regulations in force.

### 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 2006-01 (FA) – Participants' eligibility (E) (MW)

###### Condition

We have performed eligibility test to twenty-five (25) participants' files and noted the following exceptions:

1. One (1) file examined did not include the family income certification statement signed by the Head Start's officer.
2. Three (3) files examined did not include the family income in the enrollment application, such as; social security payments.
3. One (1) file examined did not provide evidence of annual medical evaluation and five (5) files examined did not have the annual dental evaluation.

Also, in eighteen (18) 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. The Policy Council's delegate members identifying some problems in these centers. 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; Sections 1305.4 (d), (e) and Section 1305.8 (a) establish the programmatic requirement procedures above the conditions reported.

###### Cause

The lack of effective controls to enforcement the programmatic procedures established by the Program.

###### Effect

The conditions detected could have a negative effect over the services provided to the participants.

###### Recommendation

We recommend that **the Municipality** should take the appropriate actions to correct the conditions indicated above to achieve compliance with federal program requirements.

###### Questioned Cost

None

Finding number 2006-02 (FA) – Period of availability of funds (H) (MW)

Condition

During our test over the liquidation of accounts payable at December 31, 2005, we noted that some debts amounting to \$17,819, were paid after 90 days.. The Program did not receive a waiver letter issued by Region II authorizing those payments.

Criteria

Subpart C, CFR No. 45, Section 92.23 (b) establishes “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

This condition may cause the lack of effective procedures over closing liquidation debts process.

Effect

The condition noted is considered a material weakness in the internal control procedures tested

Recommendation

We recommend that **the Municipality** should improve its internal control procedures over the liquidation of accounts payable in order to comply with the laws and regulations in force.

Questioned Cost

\$17,819

Finding number 2006-03 (FA) – Property management (F)

Condition

During our test over equipment, we noted the following situations:

1. Donated equipments in two centers were not recorded in the Program’s property register.
2. Air conditioning equipment damaged more than a year affecting the service to the children.

Criteria

Subpart C, CFR No. 45, Section 92.32 (d) (3) and (4) establishes that a “control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition.”

Cause

The lack of adequate procedures between Program Department and Municipality’s Departments in the management of equipment purchased.

Finding number 2006-03 (FA) – Property management (F), Continued

Effect

The conditions detected could have an effect over the services to the children and loss of donated equipment in robbery situation although these were not recorded in property register.

Recommendation

We recommend that the Municipality should take the necessary actions to comply with state and federal regulations.

Questioned Cost

None

Finding number 2006-04 (FA) – Contract provisions (I)

Condition

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

1. Two (2) contracts examined were submitted to the Commonwealth of Puerto Rico Controller's Office after the required 15 days.
2. Two (2) contracts examined did not include the oath declaration according to Law 428 of August 22, 2004.

Criteria

Subpart C, CFR No. 45, Section 92.36 (b) (1) establishes that "Procurement standards. - Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section." The Law 18 of October 30, 1975, amends and Law 428 of August 22, 2004 establish the contractual procedures over trade process.

Cause

The lack of integration of the contractual procedures established by the Municipality Legal Division and the Program does not comply with the state and federal requirements.

Effect

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

Recommendation

We recommend that the Municipality should take the necessary actions to require to the Municipality Legal Division the implementation of the provisions established in the federal regulations.

Questioned Cost

None

Finding number 2006-05 (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 (situation was reported previously).
2. Tuque C - Electric outlet without security cover, free access to playground area and without Teacher.
3. Tuque II - Emergency light does not turn on and obsolete equipment in playground area (situation was reported previously).
4. Pampano I – The Center did not have kitchen assistant and air conditioning unit is damaged.
5. Margarita II - Emergency and bathroom lights do not turn on, free access to garbage place and there is limo on sidewalk in the playground area.

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

Finding number 2006-06 (FA) – Program administration (N) (MW)

Condition

We do not have evidence of the approval letter issued by Region II about change in the position of Head Start Director during fiscal year 2005-06.

Criteria

Subpart C, CFR No. 45, Section 92.30 (d) (3) establishes that “Programmatic changes. Grantees or subgrantees must obtain the prior approval of the awarding agency whenever any of the following actions is anticipated: Changes in key persons in cases where specified in an application or a grant award.”

Finding number 2006-06 (FA) – Program administration (N) (MW), Continued

Cause

The lack of adequate process in the change of Head Start Director.

Effect

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

Recommendation

We recommend that the Municipality should take the necessary actions to obtain the authorization letter as established in federal regulations.

Questioned Cost

None

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

Finding number 2006-07 (FA) – Accounting management system (L)(MW)

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 accounting books 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.

Finding number 2006-07 (FA) – Accounting management system (L) (MW), Continued

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

Finding number 2006-08 (FA) - Cash management (C)

Condition

During our audit of programs' bank reconciliations, we noted the following situations:

1. Cash balance shown higher average monthly cash balance by approximately \$31,000.
2. Two (2) checks prepared without evidence of pickup date by the supplier which avoid corroborate time elapsing payment procedures.

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 in against of the procedures recommended by the 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

Finding number 2006-09 (FA) - Procurement procedures (I)

Condition

In our procurement test, we examined eight (8) contracts and noted the following exceptions:

1. Eight (8) contracts examined that did not include the State Department of Labor Certification.
2. Eight (8) contracts examined that did not include the Certification for Suspension and Debarment and procedure followed by Program to corroborate if the contractors are not an Excluded Parties List System Website.
3. 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, verify the entity's eligibility in the Excluded Parties List System Website and compliance with state laws.

Questioned Cost

None

Finding number 2006-10 (FA) – Reporting (L) (MW)

Condition

The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:

1. **Financial Status Report:** Submitted on October 2, 2006, two months after the waiver extension date July 31, 2006.
2. **Annual Progress Report:** Submitted 136 days (four and half months) after due date of 120 days after the end of budget period (February 28, 2006).

Finding number 2006-10 (FA) – Reporting (L) (MW), Continued

3. **WICY Report:** Submitted 134 days (four and half months) after due date of 120 days after end of budget period.
4. **MAI Report:** Submitted 163 days (five months and thirty days after the due date of 90 days after the end of budget period.
5. **Federal Cash Transaction Report:** The period from April 1, 2006 to June 30, 2006 was submitted on August 17, 2006, three days after the due date.

Criteria

Terms and conditions of the Notice of HIV Grant Award (March 2005 to February 2006) establish the due date for submission of Financial and Special Reports.

Cause

Due to a change in personnel, the program management was unable to meet the due dates for submission the reports, and not be to familiarize with these term and conditions.

Effect

Failure to comply with these reporting requirements will result in deferral or additional restrictions of future funding decisions, as per established in the Notice of Grant Award.

Recommendation

**The Municipality** should ascertain that comply with the terms and conditions established in the notice of grant award.

Questioned Cost

None

Finding number 2006-11 (FA) - Sub-recipient monitoring (M) (MW)

Condition

We have performed audit procedures to the program monitoring review process, and noted the following exceptions:

1. One service provider monitoring was not available for examination.
2. We did not observed evidence that the program performed fiscal and programmatic monitoring to the service provider financial and accounting records.

Criteria

EMA's are required to establish policies in the areas of verification and documentation of client eligibility, require that service providers follow those policies, and oversee the implementation by service providers (42 USC 300ff-14(b) and (e)(2)(B)). Subpart C, CFR No.45, Section 92.40(a) establishes that 'Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must 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.

Finding number 2006-11 (FA) - Sub-recipient monitoring (M) (MW), Continued

Cause

Due to facing some administrative changes, the monitoring procedure was discontinued during fiscal year 2005-2006.

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 adequate procedures to perform fiscal and programmatic sub-recipient monitories.

Questioned Cost

None

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

Finding number 2006-12 (FA) - Disbursement process (B)

Condition

We have performed audit procedures to twenty five (25) vouchers of payments and noted that two purchase orders were dated after the invoice.

Criteria

24 CFR Section 85.20 (b)(3) and (6) establish the following:

*Internal control.* Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Cause

The program did not maintain an effective control over invoices and, purchases orders supporting documents of disbursement voucher in the program's office.

Effect

**The Municipality** could 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

Finding number 2006-13 (FA) – Cash management (C)

Condition

Five (5) payment made by checks out of twenty-four (24) were delivered to various vendors between nine (9) and twenty (20) days after the funds were deposited in the bank account.

Criteria

Subpart C, 24 CFR Section 85.20 (B) (7) states that procedures minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used.

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

Finding number 2006-14 (FA) - Equipment and real property management (F)

Condition

The purchase of one motor vehicle (No.1104) was recorded in **the Municipality's** property records by the amount of \$23,685. The property register did not meet with some recordkeeping items established by federal requirements, such as; source of resource which paid the property acquisition, percentage of federal participation and location.

Criteria

24 CFR Subpart C, Section 85.32 (d) establish the following procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements: Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Finding number 2006-14 (FA) - Equipment and real property management (F), Continued

Cause

The property management internal control is not designed to provide information of property acquired with federal funds as required by federal regulations.

Effect

Incomplete information may cause misplacement, misuse, loss and/or wrong disposal of equipment purchased with federal funds

Recommendation

The recordkeeping procedures should be strengthened in order to assure compliance with applicable federal regulations regarding equipment.

Questioned Cost

None

Finding number 2006-15 (FA) – Contract procurement process (I)

Condition

In eight (8) contracts tested, we found the following exceptions:

1. One (1) contract without evidence of the Certification of Income Tax Return filed.
2. One (1) contract without evidence of Certification of Incorporation.
3. Six (6) contracts without clause of any conviction against the governmental funds.
4. Two (2) contracts without clause of any receiving salary payments from other governmental entities.
5. Four (4) contracts without evidence of Certification of 'Suspension and Debarment'

Criteria

Subpart C, 24 CFR Section 85.36 (b) indicates that the Grantee will use its own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards identified within this section.

Cause

The Program did not request the certifications as part of document proposal to the public service providers and did not verify if the contracts had the contract provisions indicated above.

Effect

Failures to request the certification for suspension and debarment and contract provisions could increase the possibility that the Municipality could enter into an agreement with an entity excluded from making contracts or transactions involving federal funds and take actions over contractors.

Finding number 2006-15 (FA) – Contract procurement process (I), Continued

Recommendation

We recommend that the Municipality should request the certifications of suspension and debarment from the agencies service providers, local certifications; local contract provisions required by state laws and verify the entity's eligibility in the Excluded Parties List System Website.

Questioned Cost

None

**FEDERAL PROGRAM – HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)**

Finding number 2006-16 (FA) - Cash management (C) (MW)

Condition

During our cash management test, we selected thirty-nine (39) checks for test and noted the following exceptions:

1. Twelve (12) checks were submitted to participants and suppliers after 15 days after that the funds were deposited in the bank account.
2. Nine (9) checks prepared without evidence of pickup date by the supplier and participant which avoid corroborate time elapsing payment procedures.
3. One (1) employee submitted the check to the participants without have this job duty in his/her job description (OAP-1 Form).
4. The HOME Investment Trust Fund's bank account has a balance of \$453,004 on June 30, 2006 and \$333,744 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06 and prior year. This account has deposits of funds recaptured and program income.
5. San Antón Project's bank account, which was financed with HOME funds, has a balance of \$223,594 on June 30, 2006 and \$165,310 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06 and prior year. This account has deposits of program income.

Criteria

Subpart C, 24 CFR Section 85.20 (B) (7) states that procedures minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used. Subpart C, 24 CFR Section 85.21 (f) (2) states that grantees and sub grantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments. Subpart K, 24 CFR Section 92.502 (c) (2) states that HOME funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Subpart K, 24 CFR Section 92.500 (c) (2) states that HOME Investment Trust fund will used in eligible activities within participating jurisdiction's boundaries.

Cause

Inadequate cash management procedures due to ineffective controls over collections of program income and recapture of funds to comply with federal regulations above indicated.

Effect

Inadequate controls over cash lead to non-compliance with cash management requirements and HUD Department could reduce or recapture HOME funds as established by Subpart K, 24 CFR Section 92.500 (d) (1).

Finding number 2006-16 (FA) - Cash management (C) (MW), Continued

Recommendation

We recommend that **the Municipality** should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement and use recapture and program incomes obtained in program's eligible activities.

Questioned Cost

None

Finding number 2006-17 (FA) - Participants eligibility (E)

Condition

In our test over nine (9) participants' files, we noted the following exceptions:

1. Two (2) participants have installment monthly payments without evidence of evaluation of payment capacity.
2. Five (5) files without evidence of the moving date to new housing unit assisted with federal funds.

Criteria

Subpart II, 24 CFR Section 92.353 establishes that participating jurisdiction must ensure that it has taken all reasonable steps to minimize the displacement of persons as a result of a project assisted with HOME funds. The Program established an evaluation process of the payment capacity for the eligible participants in compliance of Subpart F, CFR 24 Section 92.254.

Cause

The manual process realized was not recorded in participant file which avoid the corroboration of the procedure established.

Effect

The lack of written documentation could affect the documentation process established by federal regulations.

Recommendation

We recommend to the Program's officers to improve the written documentation over the process realized with participants.

Questioned Cost

None

Finding number 2006-18 (FA) – Procurement process (I) (MW)

Condition

In our test of five (5) contracts, we noted the following exceptions:

1. Three (3) contracts without evidence of the filing requirement date to the Office of the Comptroller Office of Puerto Rico.
2. One (1) contract without evidence of oath declaration required by Law No. 428.
3. Two (2) contracts without contractual provision about filing of income tax returns.
4. One (1) contract without evidence of the following certifications; CRIM, Treasury and Labor Department.
5. Four (4) contracts without identified the HOME budgetary expenditure account.
6. Two (2) contracts which did not include contractual provision about have not conviction against public funds and compensation with other governmental entities.
7. Two (2) contracts without certification for suspension and debarment.
8. Five (5) contracts without evidence of procedure followed to corroborate the contractors in excluded parties list system website.
9. One (1) contract without contract provision for work hours and safety standards.

Criteria

Subpart C, 24 CFR Section 85.36 (b) indicates that the Grantee will use its own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards identified within this section.

Cause

The procedures to follow in order to contract the contractors are not properly documented in the file.

Effect

Inadequate review procedures regarding to documentation for procurement process may cause that **the Municipality** may agree with supplier that is not in compliance with state laws.

Recommendation

Program's administration must improve the procurement process for the evaluation and verification of the bidders in order to minimize the risk that the realization of a granted project could not be completed. A checklist including all required documents should be included in every procurement file.

Questioned Cost

None

Finding number 2006-19 (FA) – Program income (J) (MW)

Condition

Our test over this compliance area detected the following exceptions:

1. Accounting records did not identify the revenues generated by program income.
2. HOME funds were requested without considering the amount of program income deposited in bank accounts.
3. The program had not analysis over HOME recapture funds to evaluate the period of availability of funds to be used.

Criteria

Subpart C, 24 CFR Section 85.24 and Section 85.31 and Subpart K Section 92.503 set the rulings for the control and recording of the program income and recaptured funds.

Cause

The lack of effective accounting records monitoring these resources during the period of availability of funds.

Effect

Inadequate control over program income may lead to non-compliance with federal requirements that apply to cash management system controls.

Recommendation

The program's administration should establish controls and procedures to adequately account the funds received in accordance with federal standards.

Questioned Cost

Not determinable

Finding number 2006-20 (FA) – Accounting records (L) (MW)

Condition

In our test over the accounting management system, we detected the following exceptions:

1. The Program did not have a complete general ledger of the San Antón Project.
2. HOME recaptured fund had not distributed the resources deposited between recapture and program income.
3. The commitment transactions recorded in IDIS report system were not recorded in program's accounting records as encumbrances.
4. The accounting records did not provide procedures to evaluate that commitments recorded in IDIS system were obligated during the period of availability of commitment by grant period.

Finding number 2006-20 (FA) – Accounting records (L) (MW), Continued

5. Some accounts payable were being recorded in accounting records in a grant year which was different to grant year posted in IDIS system.

Criteria

Subpart C, CFR No. 24, 85.20 (b) (2 to 4), establishes the standards for a financial management system to maintain accurate records that allow the corroboration of the use and management of the federal funds provided to the state agencies.

Cause

The accounting system does not contain all the necessary procedures to comply with the federal requirements in the accounting management system.

Effect

The lack of effective accounting procedures do not allow the effective internal control of the federal funds authorized to **the Municipality**.

Recommendation

The **Municipality** should improve the accounting system procedures for compliance of the standards required by the federal regulations.

Questioned Cost

None

Finding number 2006-21 (FA) – Sub recipient monitoring (M) (MW)

Condition

**The Municipality** did not perform an effective monitoring process to subrecipient and CHDOs organizations assisted with HOME funds.

Criteria

Subpart K, CFR No. 24 Section 92.504 (a) establishes that participant jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of state recipients, subrecipients, or contractors does not relieve the participant jurisdiction of this responsibility.

Cause

Absence of a formal monitoring unit and control procedures over federal grants funds by the program's officers as established by federal regulations.

Effect

The lack of a complete monitoring process could cause that **the Municipality** can not act promptly in case of unallowable activities or costs situations.

Finding number 2006-21 (FA) – Sub recipient monitoring (M) (MW), Continued

Recommendation

The Municipality should strengthen its monitoring procedures and internal controls to take immediate actions over the use of the federal funds as required by federal regulations.

Questioned Cost

Not Determinable

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

Finding number 2006-22 (FA) – Participant Eligibility (E) (MW)

Condition

We have performed an eligibility test to twenty-five (25) participants' files and, accordingly observed the following exceptions:

1. Three (3) files examined did not include evidence of family members' social security card number.
2. One (1) file examined did not include Sworn Statements, which specified that the participant does not have Value of Assets.
3. Three (3) files examined did not include evidence of Good Behavior Certificate for all family members of 18 years old and up.
4. Two (2) files examined did not include evidence of Drug Free Certification.
5. One (1) file examined did not include evidence of Family Department Certification (PAN).
6. Four (4) files examined did not include evidence of ASUME certification.
7. Eight (8) files examined did not include evidence of US Citizenship Declaration Form.
8. Two (2) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice. Two (2) files examined did not include some member (18 years old and up) signature in the Authorization for Release of Information/Privacy Act Notice.
9. One (1) HAP contract without landlord signature.
10. One (1) HAP contract without evidence of contract that applied to fiscal year 2005 or contract extension applied until June 30, 2006.
11. Three (3) files examined without evidence of Voucher Certification. Two (2) files examined without Section 8's officer signature in Voucher Certification.
12. Three (3) files examined did not include evidence of family members' Birth Certificates.
13. Five (5) files examined did not include evidence of Verification of Studies by Family Child.
14. Three (3) files examined did not include evidence familiar photo.
15. Six (6) files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.

Finding number 2006-22 (FA) – Participant Eligibility (E) (MW), Continued

16. Four (4) files examined did not include evidence of Department of Treasury Debt Certification.
17. Five (5) files examined did not include evidence of Department of Treasury Tax Return Debt Certification by last five years.
18. One (1) file examined did not include evidence of Sworn Statement that identified the civil status.

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. The Housing Authority Administrative Plan for the Fiscal Year 2005, Section IX identified the verification and documentation required to comply with the internal controls and compliance requirement.

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 and could have an effect in the performance on SEMAP report.

Recommendation

The Municipality should strengthen review checklist procedures to ascertain compliance with federal regulations and internal controls regarding eligibility requirements for Section 8 Housing Choice Vouchers.

Questioned Cost

Not Determinable

Finding number 2006-23 (FA) - Special reporting test (L and E) (MW)

Condition

We have performed compliance test to twenty five participants' files and we noted the following situations:

1. Two (2) files examined without evidence of the familiar report (HUD's Form 50058) during fiscal year 2005-06
2. One (1) file examined without complete items 5h (date when unit passed inspection) and 5i (date of last annual HQS Inspection) in HUD's Form 50058.
3. In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.

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. The Program has no effective monitoring review procedures for the income evidence and income calculation.

Finding number 2006-23 (FA) - Special reporting test (L and E) (MW), Continued

Effect

**The Municipality** could be exposed to non compliance with the federal regulations as the result of the data processed in HUD Forms-50058, Family Report and could have an effect in the performance on SEMAP report.

Recommendation

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

Questioned Cost

Not determinable.

Finding number 2006-24 (FA) - Reasonable rent test (N) (MW)

Condition

We have performed compliance test to twenty five participants' files and we noted the following situations:

1. In accordance to Fair Market Value Table 2005, the payment standard was calculated incorrectly in HUD Form 50058 for six participants (24%).
2. In accordance to Fair Market Value Table 2004, the payment standard was calculated incorrectly in HUD Form 50058 for one participant (4%).

Criteria

24 CFR Subpart K 982.507 (2) (ii) determine that PHA must determine if there is a five percent decrease in the published FMR in effect 60 days before the contract anniversary (for the unit size rented by the family) as compared with the FMR in effect 1 year before the contract anniversary. Housing Choice Voucher Program Guidebook, Chapter 7, Section 7.1 Payment Standards are used to calculate the HAP that the PHA pays to the owner on behalf of the family leasing the unit. The range of possible payment standard amounts is based on HUD's published Fair Market Rent (FMR) schedule for the FMR area in which the PHA has jurisdiction.

Cause

**The Municipality** has no effective monitoring review process for the FMR schedule applicable in the reexamination and calculation to adequately determine the Reasonable Rent procedures during the reexamination process.

Effect

The miscalculation can have an effect in the following: (1) total family share, (2) HAP to owner, (3) tenant rent to owner and (4) utilities reimbursement to family (if apply) and could have an effect in the performance on SEMAP report.

Recommendation

**The Municipality** should establish review procedures to ascertain that FMR applicable in the reexamination are computed correctly in accordance with federal regulations.

Questioned Cost

Not Determinable

Finding number 2006-25 (FA) – Housing quality standards inspection test (N)

Condition

In two (2) participant's files, we did not find evidence of the inspection reports applicable for the fiscal year 2005-06.

Criteria

24 CFR Subpart I, Section 982.405 (a)(b) requires that the PHA must inspect the unit leased to a family at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets HQS. The PHA must conduct supervisory quality controls HQS inspections.

Cause

Effective internal control procedures to ascertain that all tenant's rented units are inspected for HQS at least once annually are not being done because of lack of personnel.

Effect

The Municipality may be paying HAP payments for housing units that doesn't meet program requirements causing that deficiencies in units leased could affect the life quality of participants.

Recommendation

The Municipality should strengthen procedures to ascertain that all tenant's rented units are inspected for HQS at least once annually.

Questioned Cost

None

Finding number 2006-26 (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 thirty one participant's files examined:

1. Seven (7) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.
2. Eleven (11) files examined, the inspection report for the year 2005-06 indicated failed and the files do not have evidence that the units were corrected the deficiencies detected. 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 time period required by federal regulations.
3. One (1) file without evidence of the date when were corrected housing unit's deficiencies by participant.
4. One (1) file examined, we noted that the HAP contract will be cancelled fifteen months after that housing unit failed inspection. We noted that the housing unit did not have water service before the last pass inspection at October 1, 2004.
5. Two (2) notifications sent to the owner were be submitted too late which avoid that the deficiencies will be corrected on the period required by the federal regulations.
6. Sixteen (16) files without evidence of that the deficiencies notifications were submitted to the participants and/or owners which avoid that the deficiencies will be corrected on period required by federal regulations.

Finding number 2006-26 (FA) - Housing quality standards enforcement test (N) (MW), Continued

7. Five (5) files examined without evidence of owner signature in the inspections report realized for housing unit.
8. Five (5) files examined without evidence of Section 8 Officer's initials in the inspection report realized for housing units.

Criteria

24 CFR Subpart I 982.404 (a) (2)(3) and (b)(2)(3) requires the following:

(a) Owner obligation. (1) The owner must maintain the unit in accordance with HQS.

(2) If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of the HAP contract.

(3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

(b) Family obligation. (1) The family is responsible for a breach of the HQS that is caused by any of the following:

(2) If an HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

(3) If the family has caused a breach of the HQS, the PHA must take prompt and vigorous action to enforce the family obligations. The PHA may terminate assistance for the family in accordance with Sec. 982.552.

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 do not meet program requirements that could affect the quality of life of participants could have an effect in the performance on SEMAP report.

Recommendation

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

Questioned Cost

Not Determinable

Finding number 2006-27 (FA) – Utilities allowance test (N) (MW)

Condition

In testing compliance procedures for utilities allowance, we found the following situations in twenty participants' files examined:

1. Three (3) files examined, utilities allowance was calculated incorrectly in accordance to rooms by unit reported on HUD Form 50058.
2. The electricity cost utility analysis realized for one room and three rooms on April 1, 2006 was calculated incorrectly.

Criteria

24 CFR Subpart K Section 982.517 (2)(b), (3), (4)(c) establish the following:

(b) *How allowances are determined.* (1) The utility allowance schedule must be determined based on the typical cost of utilities and services paid by energy conservative households that occupy housing of similar size and type in the same locality. In developing the schedule, the PHA must use normal patterns of consumption for the community as whole and current utility rates.

(3) The cost of each utility and housing service category must be stated separately. For each of these categories, the utility allowance schedule must take into consideration unit size (by number of bedrooms), and unit types (e.g., apartment, row-house, town house, single-family detached, and manufactured housing) that are typical in the community.

c) *Revisions of utility allowance schedule* (1) a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there PHAs been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Cause

The Program has no effective monitoring review process for the utility calculation to adequately determine the allowance will be paid to the tenants.

Effect

**The Municipality** could be paying a utilities allowance to the participants incorrectly that could have an effect in the performance on SEMAP report.

Recommendation

**The Municipality** should establish review procedures to ascertain that tenant's utilities allowance are computed correctly in accordance with federal regulations.

Questioned Cost

Not determinable

Finding number 2006-28 (FA) – HAP payment - disbursement process (B)

Condition

During our test over HAP participant payroll of March 2006, we noted in two files examined differences between the amount paid to the landlords and the amount indicated in HAP contract. Also, we noted in one file that the utility reimbursement paid to the tenant was calculated incorrectly.

Criteria

24 CFR Subpart J 982.451(b)(1) The amount of the monthly housing assistance payment by the PHA to the owner/tenant is determined by the PHA in accordance with HUD regulations and other requirements. The amount of the housing assistance payment is subject to change during the HAP contract term.

Cause

The condition was caused by ineffective review procedures necessary to assure completeness in the voucher payments process.

Effect

**The Municipality** could made excessive payments to the landlords and tenant which could be exposed to non compliance with the federal regulations.

Recommendation

**The Municipality** should strengthen internal control procedures about the disbursement processing area.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**  
 Apartado 331709  
 Ponce, Puerto Rico 00733-1709

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

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133  
 Audit Period: July 1, 2005 – June 30, 2006 Fiscal year 2005-2006

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-04 (FA)	HEAD START (CFDA No. 93.600)	Matching requirement	From this time ahead the Municipality of Ponce is going to obtain these appraisal evaluations from external resources.	None	Condition partially corrected
2005-05 (FA)	HEAD START (CFDA No. 93.600)	Contract provisions	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. We implemented a process to verify that these Contractual Services were not included in the Debarment and Suspension List of the Federal Government or by requiring information from the Division of External Resources of the Puerto Rico Justice Department.	None	Condition partially corrected

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE**

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-06 (FA)	HEAD START (CFDA No. 93.600)	Accounting management system	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.	None	Condition partially corrected
2005-07 (FA)	HEAD START (CFDA No. 93.600)	Center facilities	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.	None	Condition partially corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-08 (FA)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)	Accounting management system	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.	None	Condition still prevail
2005-09 (FA)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)	Cash management	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.	None	Condition still prevail
2005-10 (FA)	HIV EMERGENCY RELIEF PROJECT GRANTS	Participant earmarking level	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.	Not determinable	Condition corrected

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2005-11 (FA)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)	Procurement procedures	The Municipality will review the proposal submission procedures in order to ask all participants certifications of suspension and debarment.	None	Condition still prevail
2005-12 (FA)	COMMUNITY DEVELOPMENT BLOCK ENTITLEMENT (CFDA No 14.218)	Public Service Test	On August, 2005 the program recruited an auditor to comply with the Monitoring Projects. Currently the auditor has conducted 11 reviews for fiscal year 2003-2004 and 2004-2005	None	Condition corrected
2005-13 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Participant Files	The Program implemented a checklist to insure compliance on March 2005. Will implement a verification system were the supervisory staff will inspect every file prior to contract execution	Not determinable	Condition still prevail

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2005-14 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Special reporting test	Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.	None	Condition still prevail
2005-15 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Reasonable rent test	Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.	Not determinable	Condition still prevail
2005-16 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Housing standards test      quality enforcement	A retraining session will be scheduled to emphasize the seriousness of the follow-up inspection.	Not determinable	Condition still prevail

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2005-17 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Disbursement process	The Disbursement process and procedures will be evaluated to insure all requirements are met.	None	Condition corrected
2005-18 (FA)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	Reporting and accounting system	Current procedures will be evaluated to improve the internal control of the unit.	Not determinable	Condition corrected
SA 04-02	COMMUNITY DEVELOPMENT BLOCK ENTITLEMENT (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 corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA 04-05	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	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 still prevail

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SA 04-06	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	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 still prevail
SA 04-07	HEAD START (CFDA No. 93.600)	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 corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA 04-08	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)	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 prevail
SA-02-21	Loan Guarantee Assistance (Section 08-HUD)	Amount Due from General Fund	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. 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>	\$ 1,176,001	Condition partially Corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
SA-02-21 (cont.)	Loan Guarantee Assistance (Section 08-HUD)	Amount Due from General Fund (continues)	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.		

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
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**CORRECTIVE ACTION PLAN**

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Principal Executive: Hon. Francisco Zayas Seijo, Mayor

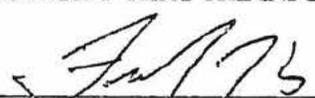
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-01 (FS) - Operating deficit of general fund (Prior year reported - first year reported in 1986)</p> <p>Condition:</p> <p>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 (Mayor's fund). The Municipality closed its fiscal years ended June 30, 2006 and 2005 with a general fund deficiency of approximately \$19.2 and \$21.3 millions, respectively.</p> <p>Recommendation:</p> <p>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</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 fiscal years 2004-2005 and 2005-2006 presented a decrease in the unreserved (deficit) fund balances of \$11.23 millions and \$2.38 millions, respectively, due to the control over expenditures according to revenues collections.</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

  
Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

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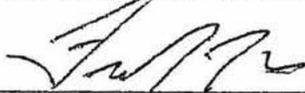
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must be evaluating the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year</p> <p>2006-02 (FS) – Accounting management system</p> <p>Condition</p> <p>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</p>	<p>For the fiscal year 2006-07, the operational general fund budget shows the deficit amortization provision..</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 8, 2007  
\_\_\_\_\_  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software. In addition, we noted the following:</p> <ol style="list-style-type: none"> <li>1. 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.</li> <li>2. 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 as transfer in</li> </ol>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 8, 2007  
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Commonwealth of Puerto Rico  
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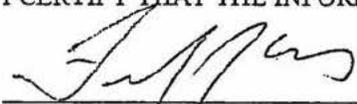
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>(out) for financial statements purposes.</p> <p>3. A federal bank account has an overdraft balance by \$24,000, approximately, caused by outstanding checks that were cancelled by stop payments made by Municipal Treasurer.</p> <p>4. Some state funds trial balances without account receivables balances to cover accrued liabilities at end of year. Our test detected several bills to governmental entities did not record in general ledger.</p> <p>5. Asuntos para la Vejez - Perla del Sur's bank reconciliation was not prepared @ 6/30/2006 because bank statement cut ending month dates between periods. Bank period is from 6/9/2006 to 7/31/2006, and bank balance is \$22,500 by deposit occurred on 6/26/2006.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 8, 2007  
\_\_\_\_\_  
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Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
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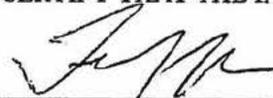
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation</b></p> <p>We recommend financial trainings to the accountants in charge in the preparation of financial and statistical reports to permit the accounting system to comply with legal requirements and governmental accounting pronouncements.</p> <p><b>2006-03 (FS) - Municipal License Tax Revenues</b></p> <p><b>Condition</b></p> <p>We have performed audit procedures to thirty four (34) municipal license tax returns (the tax return) and noted the following exceptions:</p> <p>1. Two taxpayer files examined (6%), the tax return did not submit the required audited financial statements.</p>	<p>The Collection's Office was restructured during fiscal year ended 2005. Appropriate personnel were assigned to improve the whole system.</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

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

March 8, 2007  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133 (Single Audit)

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

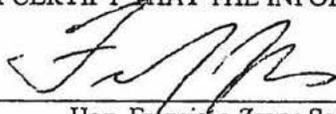
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2. In one taxpayer file examined (3%), the revenues taxable in tax return were for one operational month, only. The audited financial statements have twelve months of operation.</p> <p>3. There is no evidence in one taxpayer file (3%) of tax exemption granted.</p> <p>4. In six taxpayer files examined (18%), we noted that the revenues reported in the audited financial statements did not reconcile with revenues recorded in the tax returns filed.</p> <p><b>Recommendation</b></p> <p>We recommend that the Municipality should train the personnel working with the review of the tax returns filed, including the supervisory level.</p>	<p>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>			

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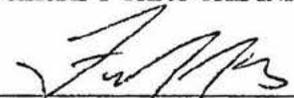
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-04 (FS) - Capital fixed assets, work of art and historical treasures</p> <p>Condition</p> <p>Capital Assets:</p> <ol style="list-style-type: none"> <li>In the evaluation of real property records, we noted that the donated facilities Auditorium Pachin Vicéns and the Paquito Montaner Stadium have not CRIM's Appraisal Certification as required by Law No. 537 of September 30, 2004. The Municipality made an internal study using actual cost of similar assets.</li> <li>In one land acquisition (seven acquisitions examined), the title of property was not available for our examination.</li> </ol>	<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>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

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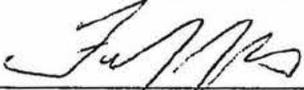
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><i>Works of art and historical treasures:</i></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>				

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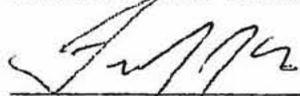
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Finding number 2006-05 (FS) – Construction Licenses Permits/Licenses</p> <p>Condition</p> <p>We have performed audit procedures to fifteen (15) construction taxes files and noted the following exceptions:</p> <p>1) Three (20%) files selected were not available for our examination which avoids the corroboration of the following documents, such as: Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. This condition does not allow the corroboration of construction tax calculated by Municipality's officers.</p>	<p>1 to 3) To instruct Permits Office of the importance to improve files system and to execute more control over the use of files.</p>	<p>In the process to prepare a letter to Mr. Modesto Delgado, Permits Office Director.</p>	<p>Mrs. Camille Rivera, Finance Director Mr. José Pérez, Collection Supervisor and Mr. Modesto Delgado, Permits Office Director</p>	<p>All conditions will be completed during fiscal year 2006-07</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

**CORRECTIVE ACTION PLAN**

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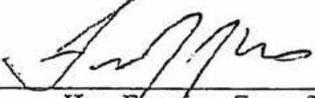
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 234-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2) In seven (47%) files examined, the Declaration of Construction Activity was not available for our examination.</p> <p>3) In seven (47%) files examined, the Finance Department's acceptance letter of Declaration of Construction Activity was not available for our examination.</p> <p>4) In cases from Central Government's construction works, we noted that the file did not include the Notice of Requirement for Issuing Permits.</p> <p><b>Recommendation</b></p> <p>The Permits Office in conjunction with the Finance and Budget Department should strengthen the internal controls to assure the compliance of construction taxes procedures.</p>	<p>4) The supervisor of Collections Office is going to require as a procedure that all tax payers going first to Office Permits to file the project. They have to get the document before tax payment be done. Another corrective action is to require copy of the document issued by the Central Government in order to maintain evidence concerning the projects.</p>	<p>In the process to write the procedure to Collections Officers that attend tax payer and to realize a meeting to discuss and correct these findings concerning Permits Office.</p>	<p>Mrs. Camille Rivera, Finance Director Mr. José Pérez, Collections Supervisor</p>	

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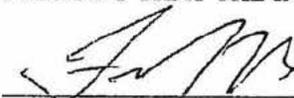
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-06 (FS) – Bid Board's procurement management system</p> <p>Condition</p> <p>We have performed audit procedures to fifteen (15) bids and noted the following exceptions:</p> <p>1. In four (26%) bids examined, five bidders submitted incomplete documents as required by bid announcement. The Bid Board adjudicated to these bidders without compliance of all documents.</p>	<p>1) A checklist has been developed to insure all required and applicable documents are verified prior to the bid board act upon the offers. The inventory of the documents will be performed by the evaluating staff and verified by Bid Board staff.</p>	<p>Complete</p>	<p>Jorge L. Morales Bid Board President Karen Texidor Bid Board Office Administrator</p>	<p>Complete</p>
<p>2. In one (6%) bid examined, one participant bidder was not notified by certified mail of the bid adjudication.</p>	<p>2) Written instructions were given to Bid Board's clerical staff to include the Certified Mail Control</p>	<p>Complete</p>	<p>Jorge L. Morales Bid Board President Karen Texidor Bid Board Office</p>	<p>Complete</p>

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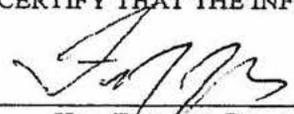
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>3. In one (6%) bid examined, the Certification of Funds by the Finance Department was received after the bid announcement was published in the newspaper.</p> <p><b>Recommendation</b></p> <p>The Municipality should strengthen internal control procedures established by the Bid Board as checklists and questionnaires that could help to identify correctly the bidder's offers are in compliance with the requirements established by bid notice.</p>	<p>Number in the Adjudication Notification, providing tracking information in case the Certified Mail receipt is not received.</p> <p>3) Procedures will be reviewed to insure the required Certification of Funds is obtained prior to the bid announcement.</p> <p>A checklist will be developed to insure all required documents are included in the bid's file.</p>	In process	<p>Administrator</p> <p>Camille Rivera  Finance &amp; Budget Director  Jorge L. Morales  Bid Board President</p>	February 28, 2007
		Complete	<p>Karen Texidor  Bid Board Office  Administrator</p>	Complete

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March 8, 2007  
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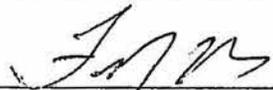
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-07 (FS) – Disbursement Voucher Process</p> <p><b>Condition</b></p> <p>We have performed audit procedures to sixty (60) disbursements made during the year with their respective supporting documents derived from various concepts and noted the following exceptions:</p> <p>1) In one (2%) voucher, the purchase requisition did not have an authorized officer signature.</p> <p>2) In four (6%) vouchers, services were paid without compliance of bid procedures (competition).</p>	<p>1 and 4.) To instruct Purchase Office personnel and personnel in charge to verify vouchers for payment to be alert to this situation.</p> <p>2) To instruct Bid Office to be alert to this situation and to require written justification for cases that there are no bids.</p>	<p>In the process to prepare a memorandum to personnel.</p> <p>In the process to prepare a letter to Bid Office Director.</p>	<p>Mrs. Camille Rivera, Finance Director. Mr. Jose De La Torre, Supervisor Purchase Office</p> <p>Mrs. Karen Texidor, Bid Office Administrator Mrs. Camille Rivera, Finance Director</p>	<p>All conditions will be completed during fiscal year 2006-07</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
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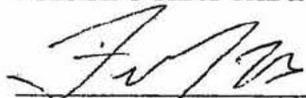
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
3) In one (2%) voucher, the purchase order was prepared and dated after the invoice date.	3) To instruct Legal Division and Bid Office that they have to evaluate the project and determine if is necessary to perform a bid. If is necessary a bid no contract should be issued. To meet with the parties involved to correct this situation.		Mrs. Camille Rivera, Finance Director Mr. Jose De La Torre, Supervisor Purchase Office	
4) In one (2%) voucher, the change order of a construction contract exceeded the 25% threshold and we do not evidence that Bid Board examined this transaction. Also, we noted that a portion of the total cost contracted obligated in the next fiscal year budget to the fiscal year which the contract was signed.	4) To prepare letter to State Legislature to require the reprogramming of funds for futures cases like this	In the process of prepare a letter to Legal Division and Bid Offices to be aware of this issue and to realize a meeting.	Mrs. Camille Rivera, Finance Director Mrs. Karen Texidor, Bid Office Administrator Mrs. Annette Rodriguez, Legal Division Director	

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Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>5) In one (2%) voucher, Joint Resolution #1838-2004 (which was designated for paving some streets), was used to pay insufficient costs of Joint Resolution #2084-2004 (which was designated for equipment acquisitions). We did not have any evidence from State Legislature to reprogram the concept of the Joint Resolution #1838-2004.</p> <p><b>Recommendation</b></p> <p>The Municipality should emphasize in reviewing the internal controls over disbursement area to avoid the situations above indicated.</p>		<p>In the process of prepare a model of letter respect to this fact if occur again.</p>	<p>Hon. Francisco Zayas Seijo,  Mayor  Mrs. Camille Rivera,  Finance Director</p>	

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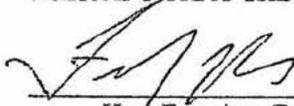
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-08 (FS) – Contract Procurement Process</p> <p><b>Condition</b></p> <p>We have performed audit procedures to fourteen (14) contracts made during the year with their respective supporting documents derived from various concepts and noted the following exceptions:</p> <p>1) In nine (64%) contracts, the Certification of Funds issued by Budget Department was prepared after the contract was signed and dated, and in two (14%) contracts examined, no evidence of Certification of Funds was available.</p>	<p>1) To implement form named "Certifications of Funds to Realized Contracts" to certificate funds for the Legal Division before the contract be realized.</p> <p>2) Coordination with Legal Division of the importance</p>	<p>Corrected</p>	<p>Mrs. Camille Rivera, Finance Director Mr. Jose De La Torre, Supervisor Purchase Office</p>	<p>All conditions will be completed during fiscal year 2006-07</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
2) In seven (50%) contracts, the contracts were filed to the Office of the Controller of Puerto Rico after the 15 days period required.	of deliver the contracts on time and additional personnel will be assigned in this job.	In the process of the personnel that can assist in this job and preparing a letter to Legal Division.	Mrs. Camille Rivera, Finance Director Mrs. Annette Rodriguez, Legal Division Director	
3) In seven (50%) contracts, the clause of penalties and/or remedies in case of breach of contract was not present in the contracts.	3) Coordination with To instruct Legal Division that all contracts should have the Penalty Clause.	Preparing a letter to Legal Division to indicate the inclusion of the Penalty Clause in all contracts.	Mrs. Camille Rivera, Finance Director Mrs. Annette Rodriguez, Legal Division Director	
4) In six (42%) contracts, the oath declaration required by Law #428 of September 22, 2004 was not present in the contracts.	4) Since February 2006 the Legal Division is requiring the document.	Completed.	Mrs. Annette Rodriguez, Legal Division Director	
5) In one (7%) contract, the Certificate of Incorporation was not available in one contract supplier.	5) Coordination with Legal Division about the importance of this form be included in contracts.	In the process to prepare a letter to Legal Division to inform about this matter.	Mrs. Camille Rivera, Finance Director Mrs. Annette Rodriguez, Legal Division Director	

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>6) In two (14%) contracts examined, the clause of Income Tax withholding in the origin was not included in the contract.</p> <p><b>Recommendation</b></p> <p>The Municipality should emphasize on constantly reviewing the internal controls, communicate to its respective responsible supervisors and departments, and then monitor the internal controls, to comply with laws and regulations.</p>	<p>6) Coordination with Legal Division the inclusion of the Income Tax Withholding clause on all contracts.</p>	<p>In the process to prepare a letter to Legal Division.</p>	<p>Mrs. Camille Rivera, Finance Director Mrs. Annette Rodriguez, Legal Division Director</p>	

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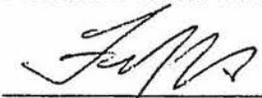
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>2006 -01 (FA) - PARTICIPANTS ELEGIBILITY</b></p> <p>Condition</p> <p>1. One file did not include a family income certification statement signed by Head Start officer.</p>	<p>1. We revised the procedures during the Program Year 2005-2006, and designed a new Eligibility Certification Sheet, where the social worker certifies the documents received, sign and write the License number in the Certification. We are maintaining the Social Workers in an orientation process.</p>	<p>Partially corrected</p>	<p>Mrs. Brunilda Rivera, Family and Community Manager</p>	<p>PY 2006-2007</p>
<p>2. Three files did not include family income in the enrollment application such as: social security payments.</p>	<p>2. We had plenty meetings with the Social Workers to revise the procedures, with the intention of encourage them to have the due care in the intervention with the eligibility process. In this particular case the Social</p>	<p>Partially Corrected</p>	<p>Mrs. Brunilda Rivera/ Family and Community Manager</p>	<p>PY 2006-2007</p>

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>3. One file did not provide evidence annual medical evaluation and five files did not have annual dental evaluation.</p> <p>Also, eighteen 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 payment. The Policy Council's delegate members identifying some problems in these centers. As a consequence, the Child Care Food Program would not be responsible to cover up these payments.</p>	<p>Worker included the income evidence, but not wrote down the information in the Eligibility Certification Sheet.</p> <p>3. We gave 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. In October 2006 we celebrated a Health Activity where we brought Pediatricians, Dentist and Laboratories</p>	<p>Partially Corrected</p>	<p>Mrs. Damatis Suliveres Acting Director</p> <p>Mrs. Iris Ocasio Health and Child Development Manager</p>	<p>PY 2006-2007</p>

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Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

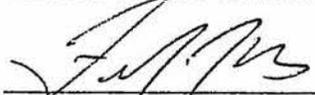
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 234-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation</b></p> <p>We recommend that the Municipality should take the appropriate actions to correct the conditions above indicated to achieve compliance with federal program requirements.</p> <p><b>2006-02 (FA) PERIOD OF AVAILABILITY OF FUNDS</b></p> <p><b>Condition:</b></p> <p>During our test over the liquidation of account payable balances recorded at December 31, 2006, we noted that some debts were paid after 90 days, totaling \$17,819. The Program</p>	<p>Services at no cost to our participants to provide the medical services to comply with the federal regulation.</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>There were four vouchers paid after March 31, 2006. These suppliers took to long to brought the debt certification to comply with the procurement process. For the next year we are going to ask</p>	<p>Partially Corrected</p> <p>Partially Corrected</p>	<p>Mrs. Damaris Suliveres Acting Director</p> <p>Mrs. Damaris Suliveres Acting Director Accounting Supervisor</p>	<p>PY 2006-2007</p> <p>PY 2006-2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

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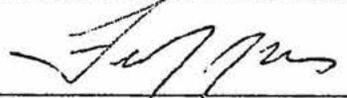
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>did not have a waiver letter issued by Region II authorizing those payments.</p> <p><b>Recommendation</b></p> <p>We recommend to the Municipality improves the internal control over liquidation debt's procedures to comply with the regulations.</p> <p><b>2006-03 (FA) PROPERTY MANAGEMENT</b></p> <p><b>Condition:</b> During our test over equipment, we noted the following situation:</p> <p>1) Donated equipments in two centers were not recorded in Program's property register.</p>	<p>for waiver to HHS Region II to authorize the payments overt the 90 day past the PY.</p> <p>1)To include donated equipment in the Programs' register we need a resolution from the Municipality Legislative Entity, authorizing to put a property number to the donated equipment. At this</p>	<p>Partially Corrected</p>	<p>Mrs. Damaris Suliveres Acting Director Mr. Wilfredo Rodriguez Property Supervisor</p>	<p>FY 2006-2007</p>

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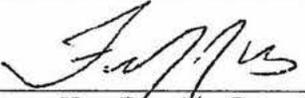
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2) Air conditioning equipment damaged more than a year affecting the service to the children.</p> <p><b>Recommendation</b></p> <p>We recommend to the Municipality should take the necessary actions to comply with state and federal regulations.</p>	<p>moment we are making a list to include the donated equipment at the centers to be presented at the Municipality Legislative Entity to comply with the procedures.</p> <p>2)On September, 2006 we installed a new air conditioning unit of 60,000 BTU to this center.</p>	<p>Corrected</p>	<p>Mrs. Damaris Suliveres Acting Director</p>	<p>September 2006</p>

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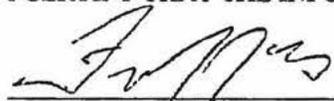
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-04 (FA) - Contract provisions</p> <p>Condition</p> <p>We have performed audit procedures to six contracts and noted the following exceptions:</p> <p>1) Two contracts were submitted after deadline to Commonwealth of Puerto Rico Controller's Office.</p> <p>2) Two contracts did not have Oath Declaration according to Law 428 of August 22, 2004.</p>	<p>1) This procedure is in charge of the Finance &amp; Budget Office of the Municipality of Ponce. At this moment the Finance &amp; Budget Office of the Municipality of Ponce is been rigorous with this process and be sure all the contracts are submitted before the 15 days due period.</p> <p>2) At this moment the Legal Division of the Municipality of Ponce and the Pre-intervention unit of the Finance</p>	<p>Partially corrected</p> <p>Partially corrected</p>	<p>Mrs. Camille Rivera Finance and Budget Director Municipality of Ponce</p> <p>Lic Annette Rodriguez Legal Division Director Municipality of Ponce</p>	<p>FY 2006-2007</p> <p>FY 2006-2007</p>

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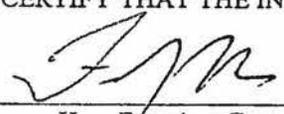
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation</b></p> <p>We recommend that the Municipality should take the necessary actions to incorporate the Municipal legal Division to implement the provisions established in federal regulations.</p> <p><b>2006-05 (FA) – CENTER FACILITIES</b></p> <p><b>Condition:</b></p> <p>During our test of six centers, we noted the following exceptions:</p> <p>1) Hogar Infantil I – Undercover electric wires in mini split unit</p> <p>2) Tuque C – Electric outlet without security cover, free access to playground area and without Teacher.</p>	<p>Department are alert to this event, taking due care to assure the compliance in this matter.</p> <p>1) The cover for the a/c unit was installed immediately.</p> <p>2) We put all the electric outlet cover, installed a cyclone fence to restrict the access to the back yard, and hired the Teacher.</p>	<p>Corrected</p> <p>Corrected</p>	<p>Mrs. Camille Rivera Finance and Budget Director Municipality of Ponce</p> <p>Mr. Librado Vega Maintenance Supervisor Head Start</p>	<p>September 2006</p> <p>September 2006</p>

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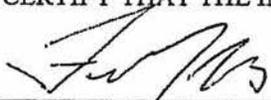
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
3) Tuque II –Emergency light does not turn on and obsolete equipment in playground area.	3) Installed new emergency lights, removed obsolete equipment from playground area immediately.	Corrected	Mr. Librado Vega Maintenance Supervisor Head Start	September 2006
4) Pampano I – Center did not have Kitchen Assistant and air condition unit damaged.	4) We only have 4 Kitchen Assistants in the Program, not all the double centers have Kitchen Assistant, we installed a new air conditioning unit at this center.	Corrected	Mr. Librado Vega Maintenance Supervisor Head Start	September 2006
5) Margarita II – Emergency light and Bathroom's lights do not turn on, free access to garbage place and limo on sidewalk in the playground area.	5) We installed new emergency lights, and fixed bathroom's light outlet. We constructed a fence to restrict the access to the sidewalk of the playground area. We going to install an inner door in the garbage place.	Corrected	Mr. Librado Vega Maintenance Supervisor Head Start	

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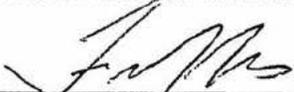
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation</b></p> <p>We recommend that the Municipality should take the necessary actions to correct this finding for compliance with federal requirement.</p> <p><b>2006-06 (FA) PROGRAM ADMINISTRATION</b></p> <p><b>Condition:</b></p> <p>We do not have evidence of the approval letter issued by Region II about change in the position of Head Start Director during fiscal year 2005-06.</p> <p><b>Recommendation:</b></p> <p>We recommend that the Municipality should take the necessary actions to obtain the authorization letter as established in federal regulations.</p>	<p>We received copy of the approval letter for this change in position on October 2006 from Mr. Allan Jones/Branch Manager HHS Region II. Since August 1, 2006 the Program has an Acting Director.</p>	<p>Corrected</p>	<p>Mrs. Damaris Suliveres Acting Director</p>	<p>September 2006</p>

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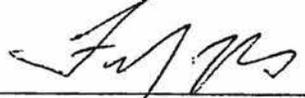
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-07 (FA) – Accounting management system</p> <p>Condition</p> <p>The Municipality has no an effective accounting system procedures to ensure the timely and 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 Mr. Luis A. Morales)</p>	<p>June 30, 2007</p>

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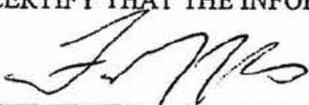
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b></p> <p>The Municipality should implement monthly reconciliations of the transactions recorded in the program with the transactions processed and recorded in the central accounting department. Also, it should ensure that all federal financial reports are prepared based on the reconciled information.</p> <p><b>2006-08 (FA) - Cash management</b></p> <p><b>Condition</b></p> <p>During our audit of programs' bank reconciliations, we noted the following situations:</p> <ol style="list-style-type: none"> <li>Cash balance shown higher average monthly cash balance by the amount of \$31,000, approximately.</li> </ol>	<p>Payments are made as soon as possible. The monthly balance will be reduced to a minimum. Employees were retrained on the importance</p>	<p>In process for the December 2006, balance reconciliation</p>	<p>Mr. Luis A. Morales, Director Mr. Alexander Alvarado, Accountant</p>	<p>January 2007 On going</p>

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March 8, 2007  
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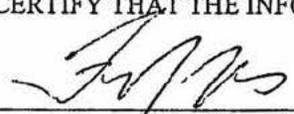
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2. Two checks prepared without evidence of pickup date by the supplier which avoid corroborate time elapsing payment procedures.</p> <p>2006-09 (FA) - Procurement procedures</p> <p>Condition</p> <p>In our procurement test made, we noted the following situations:</p> <p>1. Eight contracts without State Department of Labor Certification.</p>	<p>and need to ensure both date and signature are secured from person receiving the check</p> <p>Since the Municipality of Ponce Payment Office keeps the checks and we only maintain a copy; if check is received at our office it will be returned to the Payment Office and the person receiving the check be ask to sign and date our check book register</p> <p>For the new 2007 Proposals was included in the Guidelines for submission. A certification form was developed and included in every contract</p>	<p>In process</p> <p>In process</p>	<p>Mr. Luis A. Morales, Director Mr. Alexander Alvarado, Accountant</p>	<p>December 2006</p> <p>March 2007 On going</p>

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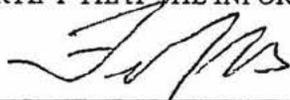
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2. Eight contracts without certification for suspension and Debarment and procedure followed by Program to corroborate the contractors in Excluded Parties List System Website.</p> <p>3. The Proposal Development Guidelines for Request of Funds does not include the request of federal assurance certifications.</p> <p><b>Recommendation</b></p> <p>We recommend that the Municipality should request the certifications of suspension and debarment from the agencies service providers, verify the entity's eligibility in the Excluded Parties List System Website and compliance with state laws.</p>	<p>Contracts will be screened prior to approval in the web site provided by the federal government. When this is done the contracts will be accompanied by this certification</p>			

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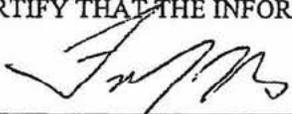
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-10 (FA) – Reporting</p> <p>Condition</p> <p>The following Financial and Special Reports were submitted to the grantor agency after the elapsed time required for submission:</p> <ol style="list-style-type: none"> <li><b>Financial Status Report:</b> Submitted on October 2, 2006, two months after the waiver extension date July 31, 2006.</li> <li><b>Annual Progress Report:</b> Submitted 136 days (four and half months) after due date of 120 days after the end of budget period (February 28, 2006).</li> <li><b>WICY Report:</b> Submitted 134 days (four and half months) after due date of 120 days after end of budget period.</li> </ol>	<p>A Technical Assistant (TA) was requested to learn how to complete these reports in order to comply correctly and in a timely fashion</p>	<p>In process</p>	<p>Mr. Luis A. Morales, Director Mr. Alexander Alvarado, Accountant</p>	<p>As required</p>

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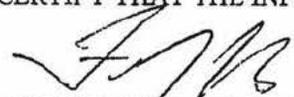
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>4. MAI Report: Submitted 163 days (five months and thirty days after the due date of 90 days after the end of budget period.</p> <p>5. Federal Cash Transaction Report: The period from 4/1/2006 to 6/30/2006 was submitted on August 17, 2006, three days after the due date August 14, 2006</p> <p><b>Recommendation</b></p> <p>We recommend to comply with the terms and conditions established in the Notice of Grant Award.</p>				

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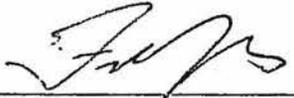
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-11 (FA) - Sub-recipient Monitoring</p> <p>Condition</p> <p>We have performed audit procedures to the program monitoring review process, and noted the following exceptions:</p> <ol style="list-style-type: none"> <li>1. One service provider monitoring was not available for examination.</li> <li>2. We did not observed evidence that the program performed fiscal and programmatic monitoring to the service provider financial and accounting records.</li> </ol>	<p>At least one fiscal monitoring will be conducted at every agency</p>	<p>In process</p>	<p>Mr. Luis A. Morales, Director</p>	<p>On going 2006-2007</p>

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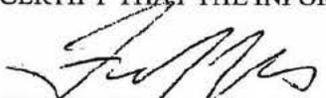
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation</b></p> <p>We recommend that the Municipality should establish procedures to perform fiscal and programmatic sub-recipient monitories.</p> <p><b>2006-12 (FA) Disbursement Process</b></p> <p><b>Condition</b></p> <p>We have performed audit procedures to twenty five (25) vouchers of payments and we noted that two purchase orders were issued after the goods/service invoice.</p> <p><b>Recommendation:</b></p> <p>The Municipality should improve review procedures of the disbursement processing area.</p>	<p>The invoice for goods and services received were for the salary of two employees subsidized under the Public Service Program. A proposal for these centers was properly evaluated and selected. The contract, effective 1 July, was also executed providing the legal binding document authorizing the payment. The situation occurs at the beginning of the fiscal year while the grant agreement is in process, this process can extend over 30 days from the July 1, the beginning of our fiscal year. Instructions will</p>	<p>Even though the purchase orders were issued after the invoice for rendered services, the services were rendered during the period established in the contracts. In one instance, the effective date of the contract was 30 August 05 and the period billed was for Sept 05. The second situation applied to a public center were the delegation of funds agreement covers from 1 Jul 05 to 30 Jun 06. These two transactions were correctly registered in our accounting division.</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>January 30, 2007</p>

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Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>2006-13 (FA) Cash Management</b></p> <p><b>Condition:</b></p> <p>Five payment checks were issued to vendors between nine (9) and twenty (20) days after funds were deposited in the bank account.</p> <p><b>Recommendation:</b></p> <p>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.</p>	<p>be given to reject any invoice if a purchase order has not been issued.</p> <p>A close coordination currently exists between our accounting office and the municipality's Finance Department. Our staff is well aware of Program Requirements. Since our staff has no control over the check issuing process we depend upon the actions of the responsible office. It must be acknowledge that unforeseen staff situation may occur that may prevent the compliance of the program. The checks that were issued twenty days after the funds were deposited were intended to be issued prior to</p>	<p>In progress</p> <p>The procedures will be review and will be modified if needed.</p> <p>In-Progress</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>February 28, 2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133 (Single Audit)

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

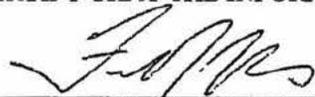
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-14 (FA) Equipment and real property management</p> <p>Condition:</p> <p>The purchase of one motor vehicle (No. 1104) was recorded in the Municipality's property records by the amount of \$23,685. The property register did not meet with some recordkeeping items established by federal requirements, such as: source of resource which paid the property acquisition, percentage of federal participation and location.</p>	<p>the municipality's Christmas's recess 2005.</p> <p>Instructions will be given to the accounting staff to formally notify the responsible check's issuing office of the requests of funds and the federal requirement to issue the check.</p>			
	<p>The vehicle was purchased by municipality's public service center with funds reserved for that activity under a delegation of funds agreement.</p> <p>Procedures will be reviewed to insure compliance with current directives.</p>	<p>In-progress</p> <p>In-Process</p>	<p>Camille Rivera, Finance Dir.</p> <p>Camille Rivera, Finance Dir.</p>	<p>March 30, 2007</p> <p>January 30, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

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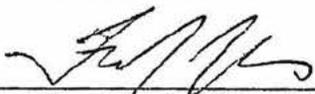
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b> The recordkeeping procedures should be strengthened in order to assure compliance with applicable federal regulations, regarding equipment.</p> <p><b>2006-15 (FA) Contract procurement process</b></p> <p><b>Condition:</b> In five contracts tested, we found the following exceptions:</p> <ol style="list-style-type: none"> <li>One contract without evidence of Certification of Income Tax Returns.</li> <li>One contract without evidence of Certification of Corporation.</li> <li>Six contracts without clause of any conviction against the governmental funds.</li> </ol>	<p>A Contract Processing Checklist will be developed that will list all federal, state and local documents and require contract clauses. The form will provide the originating office to verify the documents included in the contract's package and the staff responsible to process the contract will review and document compliance.</p>	<p>In-Progress</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>February 28, 2006</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
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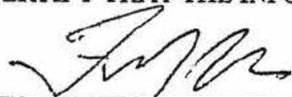
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>4. Two contracts without clause of any receiving salary payments from other governmental entities.</p> <p>5. Four contracts without evidence of Certification of "Suspension and Debarment".</p> <p><b>Recommendation:</b></p> <p>We recommend that the Municipality should request the certifications of suspension and debarment from the agencies service providers, local certifications, local contract provisions required by state laws and verify the entity's eligibility in the Excluded Parties List System Website.</p>	<p>Instructions has been given and a procedure established to verify the Excluded Party List System prior to the formalization of any contract.</p>	<p>Completed</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>December 2006</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

**CORRECTIVE ACTION PLAN**

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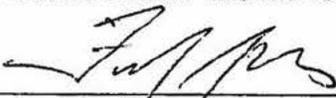
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>2006-16 (FA) Cash management</b></p> <p><b>Condition:</b></p> <p>During our cash management test, we noted the following situations:</p> <ol style="list-style-type: none"> <li>Twelve checks (39 checks examined) were submitted to participants and suppliers after 15 days after of that funds were deposited in bank account.</li> <li>Nine checks prepared without evidence of pickup date by the supplier and participant which avoid corroborate time elapsing payment procedures.</li> </ol>	<ol style="list-style-type: none"> <li>and 2. The procedures established are designed as to permit the check issue is no more than three working days from the date of the drawdown in IDIS. Once the check is issued, it is registered in the accounting record and compliance with the program requirement is met. In some instances checks are safeguarded until pickup per payee request or for program requirements such as Mortgage closing and Deed signatures.</li> </ol>	<p>In-Progress</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>January 30, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
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Commonwealth of Puerto Rico  
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Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
3. One employee submitted the check to the participants without have this job duty in your Job Description (OAP-1 Form).	3. Job Description Forms (OAP-1) will be update to those employees that may require to perform the payment of a check.	In-Progress	Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir	March 30, 2007
4. The HOME Investment Trust Fund's bank account has a balance of \$453,004 on June 30, 2006 and \$333,744 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06 and last year. This account has deposits of funds recaptured and program income.	4. and 5. An analysis of this account will be conducted to identify the recaptures funds from program income. Once identify by type, they will be used to cover imminent disbursement and the balance will be restore to the Line-of-Credit as applicable.	In-Progress	Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir	January 30, 2007

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Hon. Francisco Zayas Seijo, Mayor

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Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
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**CORRECTIVE ACTION PLAN**

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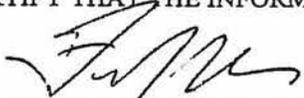
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>5. San Antón Project's bank account, which was financed with HOME funds, has a balance of \$223,594 on June 30, 2006 and \$165,310 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06 and last year. This account has deposits of program income.</p> <p><b>Recommendation:</b>  We recommend that the Municipality should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement and use recapture and program incomes obtained in eligible activities.</p>				

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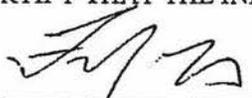
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 234-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-17 (FA) Participant eligibility</p> <p>Condition:</p> <p>In our test over nine participant's files, we noted the following situation:</p> <p>1. Two participants have installment monthly payments without evidence of evaluation of payment capacity.</p>	<p>1. In both instances, the amount of payment were increased per participant request to reduce the term of the repayment period and in accordance to program design.</p> <p>Effective April 2006, a subsidy analysis is performed on every participant prior to the execution of the assistance agreement.</p>	<p>Previously corrected</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>Completed</p>
<p>2. Five files without evidence of the moving date to new housing unit</p>	<p>2. A certification form will be design and participants will be</p>	<p>In-progress</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>February 28, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
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Commonwealth of Puerto Rico  
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Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

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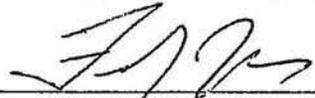
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>assisted with federal fund.</p> <p><b>Recommendation:</b> We recommend to the Program's officers to improve the written documentation over the process realized with participants.</p> <p>2006-18 (FA) Procurement process</p> <p><b>Condition:</b> In our test over five contracts, we noted the following situation:</p> <ol style="list-style-type: none"> <li>Three contracts without evidence submission date to Commonwealth of Puerto Rico Comptroller's Office.</li> <li>One contract without evidence of Oath Declaration required by Law No. 428.</li> </ol>	<p>required to return to the office certifying a moving date.</p> <p>A Contract Processing Checklist will be developed that will list all federal, state and local documents and require contract clauses. The form will provide the originating office to verify the documents included in the contract's package and the staff responsible to process the contract will review and document compliance.</p>	<p>In-Progress</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>February 28, 2007</p>

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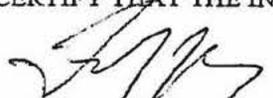
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>3. Two contracts without contractual provision about filing of income tax returns.</p> <p>4. One contract without evidence of the following certifications: CRIM, Treasury and Labor Department.</p> <p>5. Four contracts without identified the HOME budgetary expenditure account.</p> <p>6. Two contracts without contractual provision of have not conviction against public funds and compensation with other governmental entities.</p> <p>7. Two contracts without Certification for Suspension and Debarment.</p> <p>8. Five contracts without evidence of procedure</p>	<p>Instructions have been given and a procedure established to verify the Excluded Party List System prior to the formalization of any contract.</p>	<p>Completed Dec 2006</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>Completed</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

**CORRECTIVE ACTION PLAN**

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133 (Single Audit)

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

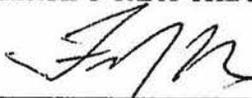
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>followed to corroborate the contractors in Excluded Parties List System Website.</p> <p>One contract, without Contract Work Hours and Safety Standard contract provision.</p> <p><b>Recommendation:</b>  Program's administration must improve the procurement process for the evaluation and verification of the bidders in order to minimize the risk that the realization of a granted project could not be completed. A checklist including all required documents should be included in every procurement file.</p>				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 8, 2007  
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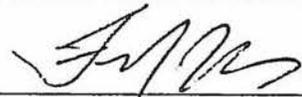
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>2006-19 (FA) Program income</b></p> <p><b>Condition:</b></p> <p>Our test over this compliance area detects the following situation:</p> <ol style="list-style-type: none"> <li>Accounting records did not identify the revenues generated by program income.</li> <li>HOME funds were requested without considering of the program income deposited in bank accounts.</li> <li>The program had not analysis over HOME recapture funds to corroborate the period of availability of funds to be used.</li> </ol>	<p>An analysis of this account will be conducted to identify the recaptures funds from program income. Once identify by type, they will be used to cover imminent disbursement and the balance</p> <p>will be restoring to the Line-of-Credit as applicable. Program income will be process according to current directives.</p>	<p>In-Progress</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>March 30, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
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Ponce, Puerto Rico

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b></p> <p>The Program's administration should establish controls and procedures to adequately account the funds received in accordance with federal standards.</p> <p><b>2006-20 (FA) Accounting records</b></p> <p><b>Condition:</b></p> <p>In our test over accounting management system, we detect the following situations:</p> <ol style="list-style-type: none"> <li>The program did not have a complete general ledger of the San Antón Project.</li> </ol>	<ol style="list-style-type: none"> <li>Although a separate account was open and maintained by the Municipality's Finance Division, the program staff will set up the required ledger.</li> </ol>	<p>In-progress</p>	<p>Camille Rivera, Finance Dir. Jorge L. Morales, DEC Dir</p>	<p>March 30, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

March 8, 2007

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Commonwealth of Puerto Rico  
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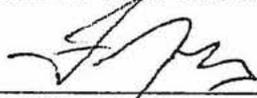
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
2. HOME Recaptured Fund had not distributed the resources deposited between recapture and program incomes.	2. An analysis of this account will be conducted to identify the recaptures funds from program income. Once identify by type, they will be used to cover imminent disbursement and the balance will be restoring to the Line-of-Credit as applicable. Program income will be process according to current directives.	In-Progress	Jorge L. Morales, DEC Dir	March 30, 2007
3. The commitment transactions recorded in IDIS Report Systems were not recorded in Program's accounting records as encumbrances.	3. Procedures are in-place to maintain our accounting records parallel to IDIS.	In-Progress	Jorge L. Morales, DEC Dir	February 28, 2007
4. The accounting records did not provide procedures to corroborate that	4. Previously, our accounting system had partial capability to list the encumbrances	Completed	Jorge L. Morales, DEC Dir	February 28, 2007

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March 8, 2007  
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Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>commitments recorded in IDIS System were obligated during the period of availability of commitment; by grant period.</p> <p>5. Some payables were recorded in accounting record in a grant year which was different to grant posted in IDIS System.</p> <p><b>Recommendation:</b></p> <p>The Municipality should improve the accounting system procedures for compliance of the standards required by the federal regulations.</p>	<p>(commitment) by date (contract date) that allows the verification of committed amount in accordance to the CPD Notice 01-13.</p> <p>5. The payables were recorded correctly in our accounting system, since IDIS is a FIFO system we have no control over this issue.</p>	<p>NA</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>February 28, 2007</p>

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March 8, 2007  
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-21 (FA) Subrecipient monitoring</p> <p>Condition:</p> <p>The Municipality did not realize an effective monitoring process to subrecipient and CHDOs organizations assisted with HOME funds.</p> <p>Recommendation:</p> <p>The Municipality should strengthen its monitoring procedures and internal controls to take immediate actions over the use of the federal funds as required by federal regulations.</p>	<p>The department's auditor will schedule a formal and on-site monitoring.</p>	<p>To be schedule</p>	<p>Jorge L. Morales, DEC Dir</p>	<p>April 30, 2007</p>

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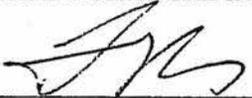
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-22 (FA) Participant eligibility</p> <p>Condition:</p> <p>We have performed an eligibility test to twenty five participant's files and, accordingly observed the following exceptions:</p> <ol style="list-style-type: none"> <li>Three files (12%) did not evidence of family members' social security card number.</li> <li>One file (4%) did not include Sworn Statements, which specified that the participant does not have Value of Assets.</li> <li>Three files (12%) did not include evidence of Good Behavior Certificate for all family members of 18 years old and up.</li> </ol>	<p>Individual tenant's files are being corrected by requesting the required documents.</p> <p>Condition previously identified through the SEMAP evaluations. A checklist was developed and distributed to caseworker to provide verification.</p> <p>Provide training to caseworkers and staff</p>	<p>In-Progress</p> <p>Completed on 20 June 2006</p> <p>Pending, SEMAP training will be provided by HUD, schedule Jan 22-Feb 2, 2007</p>	<p>Lizette Caballero, Housing Dir.</p> <p>Jorge L. Morales, DEC Dir</p> <p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir</p>	<p>February 28, 2007</p> <p>February 2, 2007</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 8, 2007  
\_\_\_\_\_  
Date

Commonwealth of Puerto Rico  
MUNICIPALITY OF PONCE  
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133 (Single Audit)

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>4. Two files (8%) did not include evidence of Drug Free Certification.</p> <p>5. One file (4%) did not include evidence of Family Department Certification (PAN).</p> <p>6. Four files (16%) did not include evidence of ASUME Certification.</p> <p>7. Eight files (33%) did not include evidence of US Citizenship Declaration Form.</p> <p>8. Two files (8%) did not include evidence of Authorization for Release of Information/Privacy Act Notice. Two files (8%) did not include some member (18 years old and up) signature in the Authorization for Release of</p>				

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Principal Executive: Hon. Francisco Zayas Seijo, Mayor

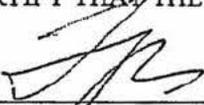
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Information/Privacy Act Notice.</p> <p>9. One HAP contract (4%) without landlord signature.</p> <p>10. One HAP contract (4%) without evidence of contract that applied to fiscal year 2005 or contract extension applied until June 30, 2006.</p> <p>11. Three files (12%) without evidence of Voucher Certification. Two files (8%) without Section 8's Officer signature in Voucher Certification.</p> <p>12. Three files (12%) did not include evidence of family members' Birth Certificates.</p>				

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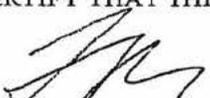
Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>13. Five files (20%) did not include evidence of Verification of Studies by Family Child.</p> <p>14. Three files (12%) did not include evidence familiar photo.</p> <p>15. Six files (24%) did not include evidence of Department of Labor Certification for all members of 18 years old and up.</p> <p>16. Four files (16%) did not include evidence of Department of Treasury Debt Certification.</p> <p>17. Five files (20%) did not include evidence of Department of Treasury Tax Return Debt Certification by last five years.</p>				

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>18. One file (4%) did not include evidence of Sworn Statement that identified the civil status.</p> <p><b>Recommendation:</b></p> <p>The Municipality should strengthen review checklist procedures to ascertain compliance with federal regulations and internal controls regarding eligibility requirements for Section 8 Housing Choice Vouchers.</p> <p>2006-23 (FA) Special reporting test</p> <p><b>Condition:</b></p> <p>We have performed compliance test to twenty five participants' files and we noted the following situations:</p>				

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Principal Executive: **Hon. Francisco Zayas Seijo, Mayor**

Audit Period: **July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)**

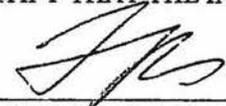
Contact Person: **Mrs. Mirna Ortiz, Finance and Budget Director**

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

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>1. Two files (8%) without evidence of the familiar report (HUD's Form 50058) during fiscal year 2005-06.</p> <p>2. One file (4%) without complete items 5h (date when unit passed inspection) and 5i (date of last annual HQS Inspection) in HUD's Form 50058.</p> <p>3. In five (20%) files, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p> <p><b>Recommendation:</b></p> <p>The Municipality should strengthen review procedures of the information recorded in HUD's Form 50058, Family Report.</p>	<p>In this instance both participants were portability, residing in other jurisdictions (HA), the receiving HA is not required to submit a 50058 to the initial HA, Receiving HA is required to submit an invoice. If the family is absorbed by the receiving HA, a notification is received for this action.</p>	<p>One family was absorbed on 1 Nov 2005 and the required EOP was transmitted.</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>March 30, 2007</p>
	<p>Individual tenant's files are being corrected.</p>	<p>In-Progress</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>March 30, 2007</p>
	<p>Provide training to caseworkers and staff</p>	<p>Pending</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>February 2, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

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**CORRECTIVE ACTION PLAN**

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Audit Period: July 1, 2005 – June 30, 2006 (Fiscal year 2005 – 2006)

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2006-24 (FA) Reasonable rent test</p> <p>Condition:</p> <p>We have performed compliance test to twenty five participants' files and we noted the following situations:</p> <ol style="list-style-type: none"> <li>In accordance to Fair Market Value Table 2005, the payment standard was calculated incorrectly in HUD Form 50058 for six participants (24%).</li> <li>In accordance to Fair Market Value Table 2004, the payment standard was calculated incorrectly in HUD Form 50058 for one participant (4%).</li> </ol>	<p>A review of current procedures will be performed to ascertain if changes are needed</p> <p>This condition occurred due to an exception or revision of the FMR by HUD, where the FMR for our area were being revised. Regional Office gave the option to HA's to continue to use the current FMR or use the newly revised.</p>	<p>Pending</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>March 30, 2007</p>

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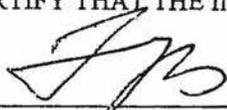
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b></p> <p>The Municipality should establish review procedures to ascertain that FMR applicable in the reexamination are computed correctly in accordance with federal regulation.</p> <p>2006-25 (FA) Housing quality standards inspection test</p> <p><b>Condition:</b></p> <p>In two (5%) participants' files, we did not find evidence of the inspection reports applicable for the Fiscal Year 2005-06.</p>	<p>The FMR is used to establish the payment standard which can be set up to 110% of published FMR. The HA has the procedures to review the Payment Standard once the FMR is published. The regulation allows the HA to decrease down to 90% of FMR or increase up to 110% depending upon the effect on the family and/or the local rental market.</p> <p>This situation occurred due to personnel shortage, and a separation of duties. An inspection unit was created that included two housing inspectors dedicated exclusively to the inspection</p>	<p>In-process</p>	<p>Lizette Caballero,  Housing Dir.  Jorge L. Morales, DEC Dir.</p>	<p>March 30, 2007</p>

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Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b> The Municipality should strengthen procedures to ascertain that all tenant's rented units are inspected for HQS at least once annually.</p> <p><b>2006-26 (FA) Housing quality standards enforcement test</b></p> <p><b>Condition:</b> In testing the Housing Quality Standards Enforcement procedures for failed HQS inspection, we found the following situations in thirty one participant's files examined:</p> <p>1. Seven files (23%) examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the</p>	<p>task. A third inspector will be recruited to cover the deficiency of the unit.</p> <p>This situation occurred due to personnel shortage, and a separation of duties. An inspection unit was created that included two housing inspectors dedicated exclusively to the inspection task. A third inspector will be recruited to cover the deficiency of the unit.</p> <p>Supervisor and inspector attended HQS training and certification on 6-8 sept. 2006.</p>	<p>In-progress</p> <p>Training completed</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p> <p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>March 30, 2007</p> <p>Completed on 8 Sept 2006</p>

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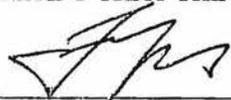
Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.</p> <p>2. Eleven files (35%) examined, the inspection report for the year 2005-06 indicated failed and the files do not have evidence that the units were corrected the deficiencies detected. 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 time period required by federal regulations.</p>				

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>3. One file (3%) without evidence of the date when were corrected housing unit's deficiencies, by participant.</p> <p>4. One file (3%) examined, we noted that the HAP contract will be cancelled fifteen months after that housing unit failed inspection. We noted that the housing unit did not have water service before the last pass inspection at October 1, 2004.</p> <p>5. Two notifications sent to the owner were be submitted too late which avoid that the deficiencies will be corrected on the period required by the federal regulations.</p>				

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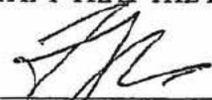
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>6. Sixteen files (52%) without evidence of that the deficiencies notifications were submitted to the participants and/or owners which avoid that the deficiencies will be corrected on period required by federal regulations.</p> <p>7. Five files (16%) without evidence of owner signature in the inspections report realized for housing unit.</p> <p>8. Five files (16%) without evidence of Section 8 Officer's initials in the inspection report realized for housing units.</p>				

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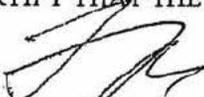
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><b>Recommendation:</b></p> <p>The Municipality should emphasize inspections procedures to ascertain that prompt corrective actions surrounding the owner and tenant obligations to meet HQS are taken. If the owner and tenant do not comply with federal requirements, the Municipality has the obligation to cancel the HAP contract.</p> <p><b>2006-27 (FA) Utilities allowance test</b></p> <p><b>Condition:</b></p> <p>In testing compliance procedures for utilities allowance, we found the following situations in twenty participant's files examined:</p> <ol style="list-style-type: none"> <li>Three files (15%) utilities allowance was calculated incorrectly in accordance to rooms by</li> </ol>	<p>A through review will be conducted to ascertain any weakness in our current procedures.</p> <p>Instructions will be given to verify and double check the calculations used to determine utility allowances.</p>	<p>Pending</p> <p>Pending</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p> <p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>April 30, 2007</p> <p>April 30, 2007</p>

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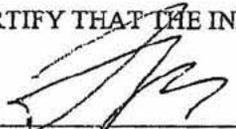
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>unit reported on HUD Form 50058.</p> <p>2. The electricity cost utility analysis realized for one room and three rooms on April 1, 2006 was calculated incorrectly.</p> <p><b>Recommendation:</b> The Municipality should establish review procedures to ascertain that tenant's utilities allowance are computed correctly in accordance with federal regulations.</p> <p><b>2006-28 (FA) HAP Payment – Disbursement process</b></p> <p><b>Condition:</b> During our test over HAP participant payroll of March 2006, we noted in two files examined differences between the amount paid to the landlords and</p>	<p>Provide training to staff and caseworkers.</p>	<p>Pending, SEMAP training will be provided by HUD, schedule Jan 22-Feb 2, 2007</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>February 2, 2007</p>
<p>During our test over HAP participant payroll of March 2006, we noted in two files examined differences between the amount paid to the landlords and</p>	<p>A through review of the disbursement process will be conducted in order to strengthen the existing internal control.</p>	<p>Pending</p>	<p>Lizette Caballero, Housing Dir. Jorge L. Morales, DEC Dir.</p>	<p>February 28, 2007</p>

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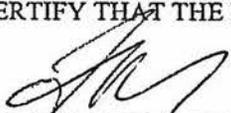
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>the amount indicated in HAP contract. We noted in one file that the utility reimbursement paid to the tenant was calculated incorrectly.</p> <p>Recommendation:  The Municipality should strengthen internal control procedures about the disbursement processing area.</p>				

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